

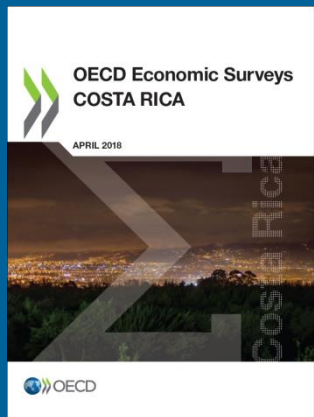


OECD ECONOMIC SURVEY COSTA RICA 2018

Sharing the benefits of growth more widely

San José, 17 April 2018

www.oecd.org/eco/surveys/economic-survey-costa-rica.htm

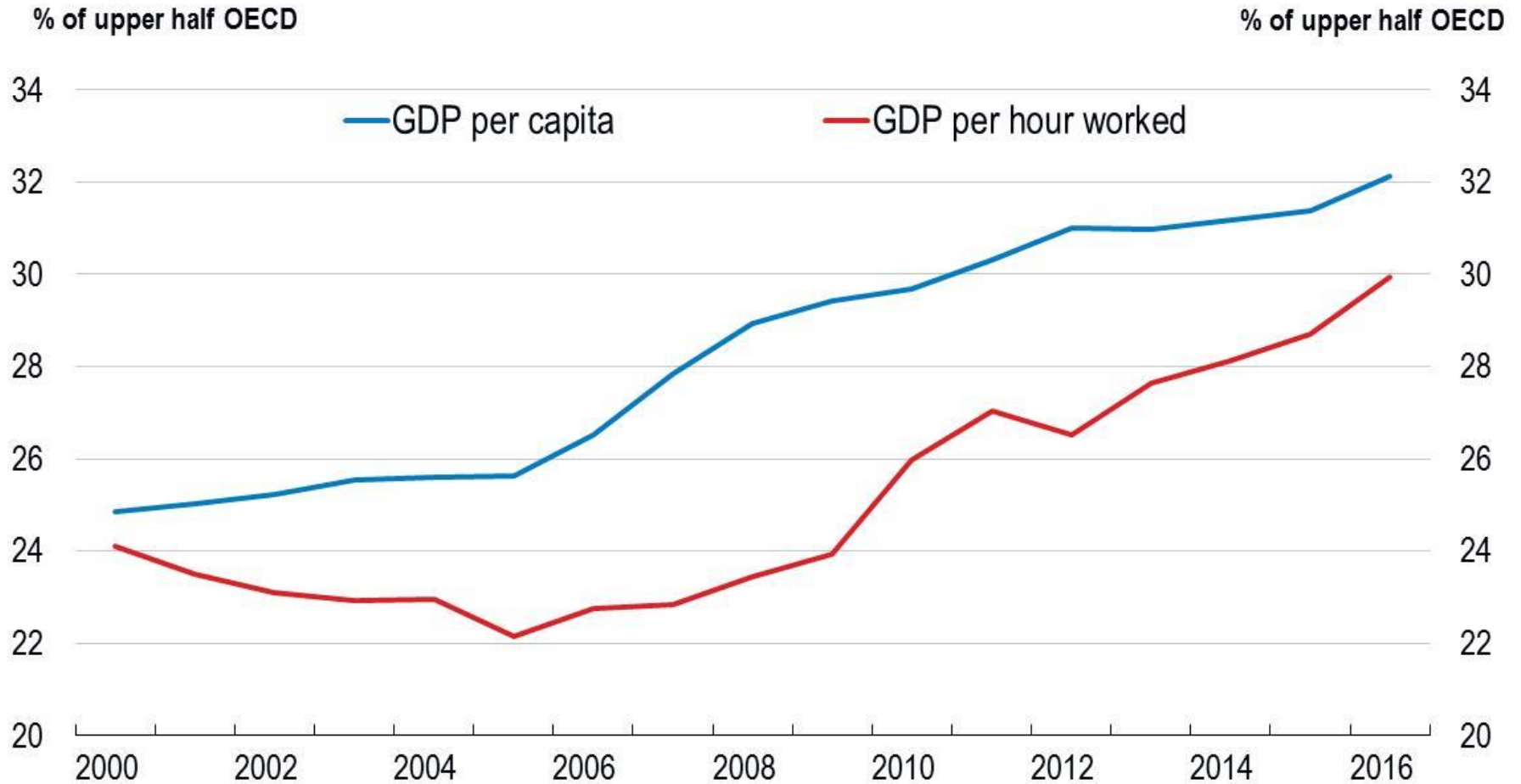


 @OECDeconomy
 @OECD





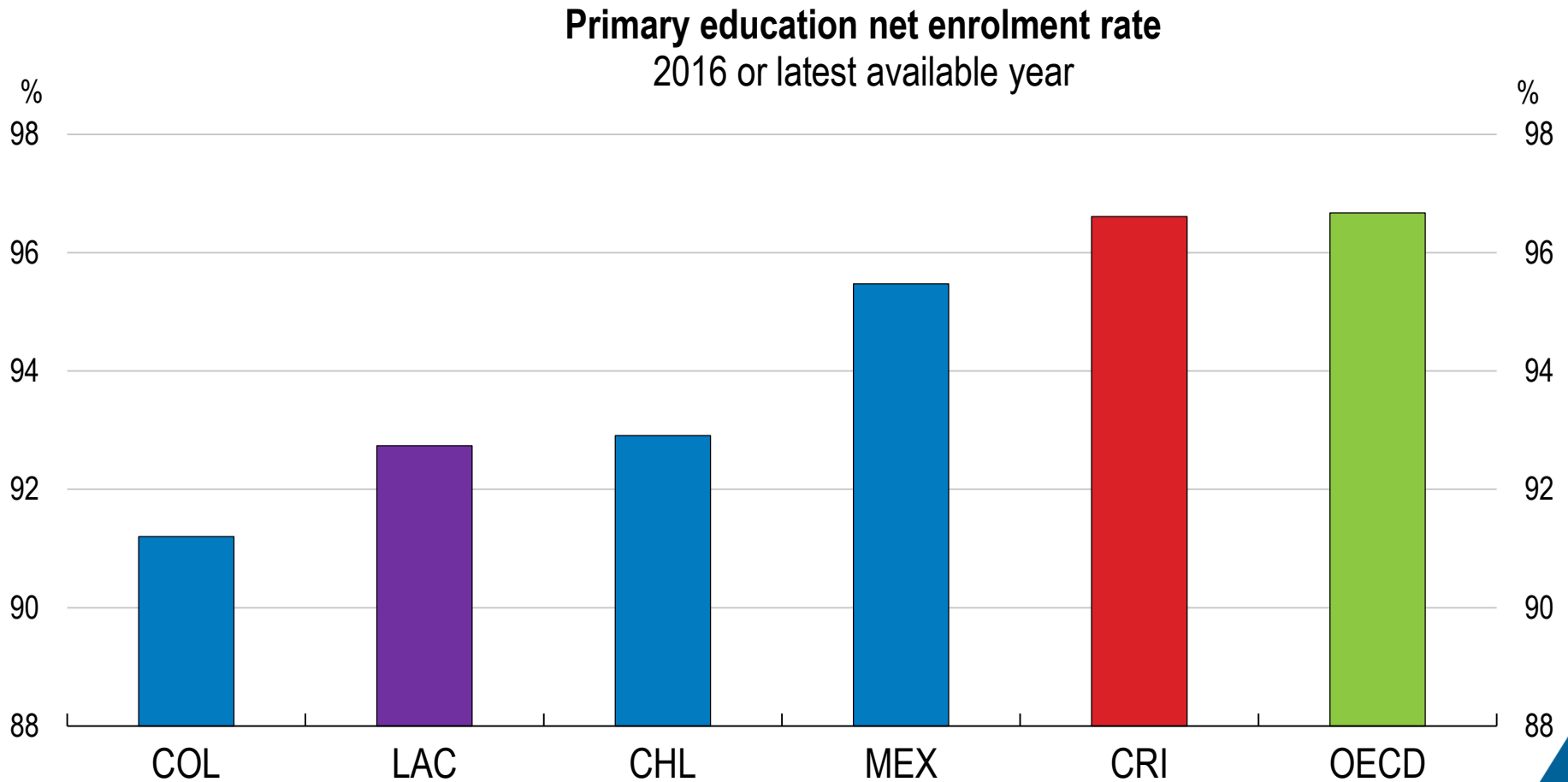
Living standards are rising



Source: OECD Productivity Database.



Costa Rica's social achievements are impressive: Education

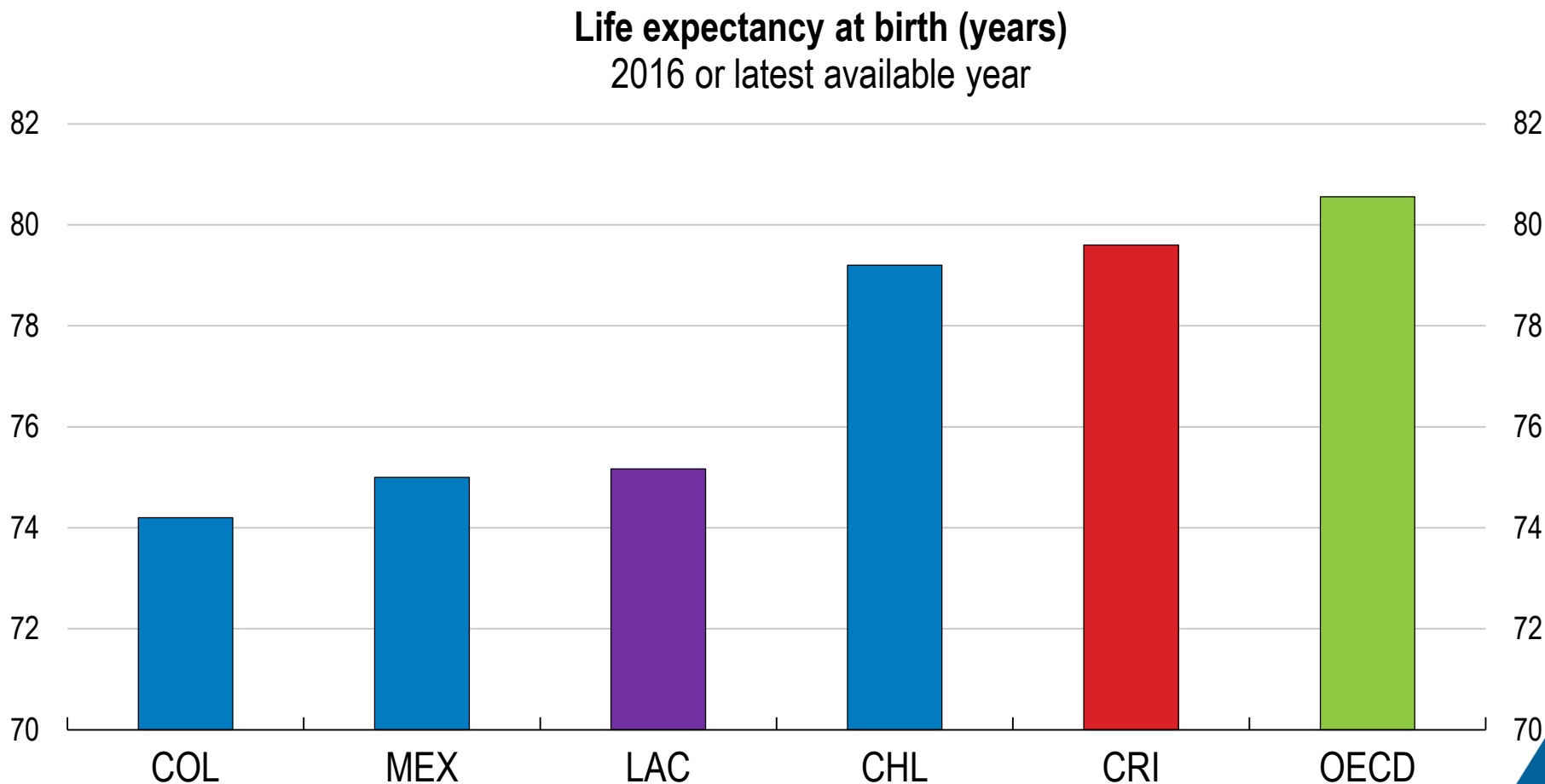


Note: LAC refers to Latin America and the Caribbean. OECD is a simple average of 32 OECD member countries with available data.

Source: UNESCO Statistics.



Costa Rica's social achievements are impressive: Life expectancy

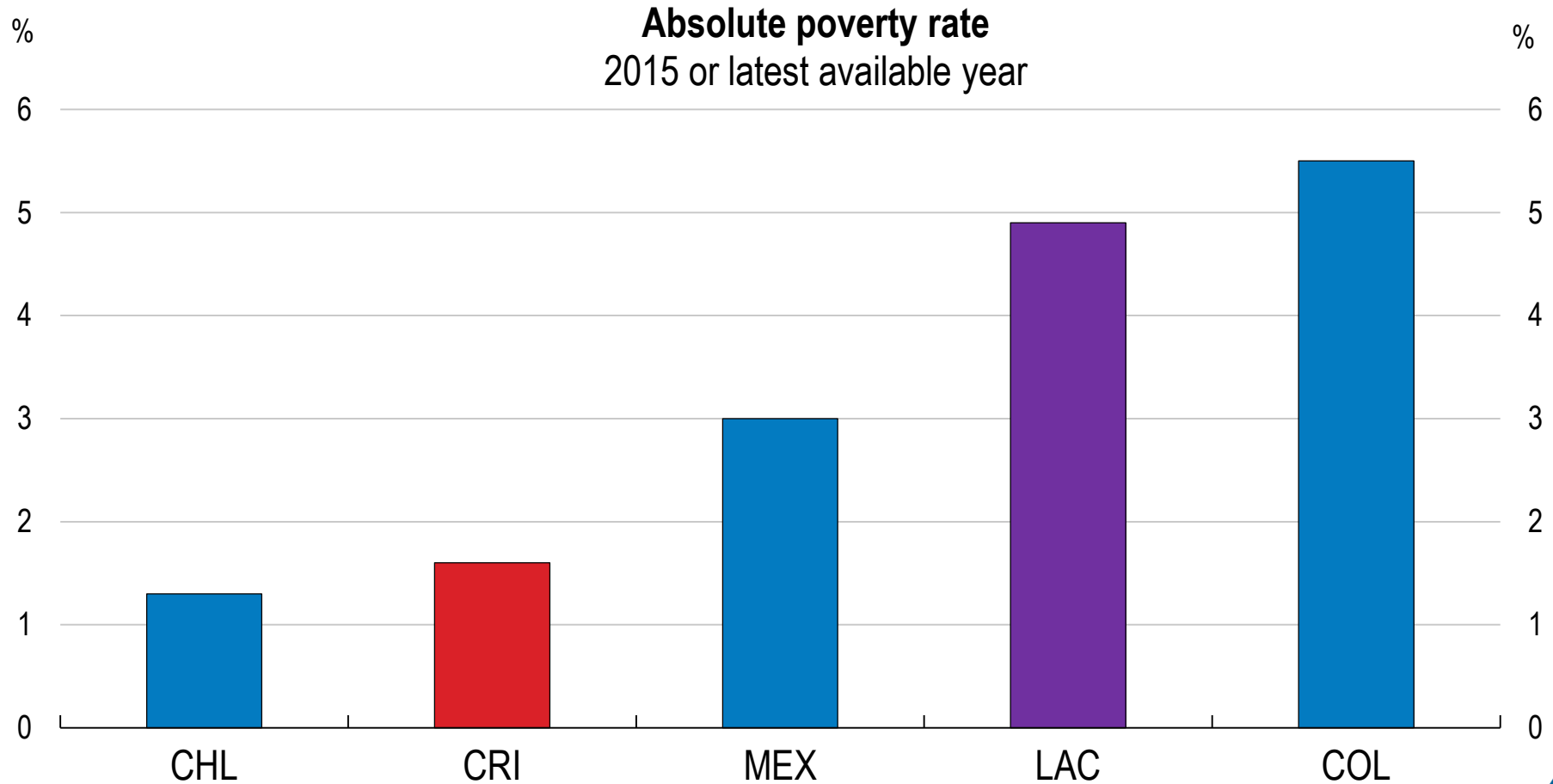


Note: LAC refers to Latin America and the Caribbean.

Source: OECD Health Statistics database and World Bank World Development Indicators.



Costa Rica's social achievements are impressive: Absolute Poverty Rate

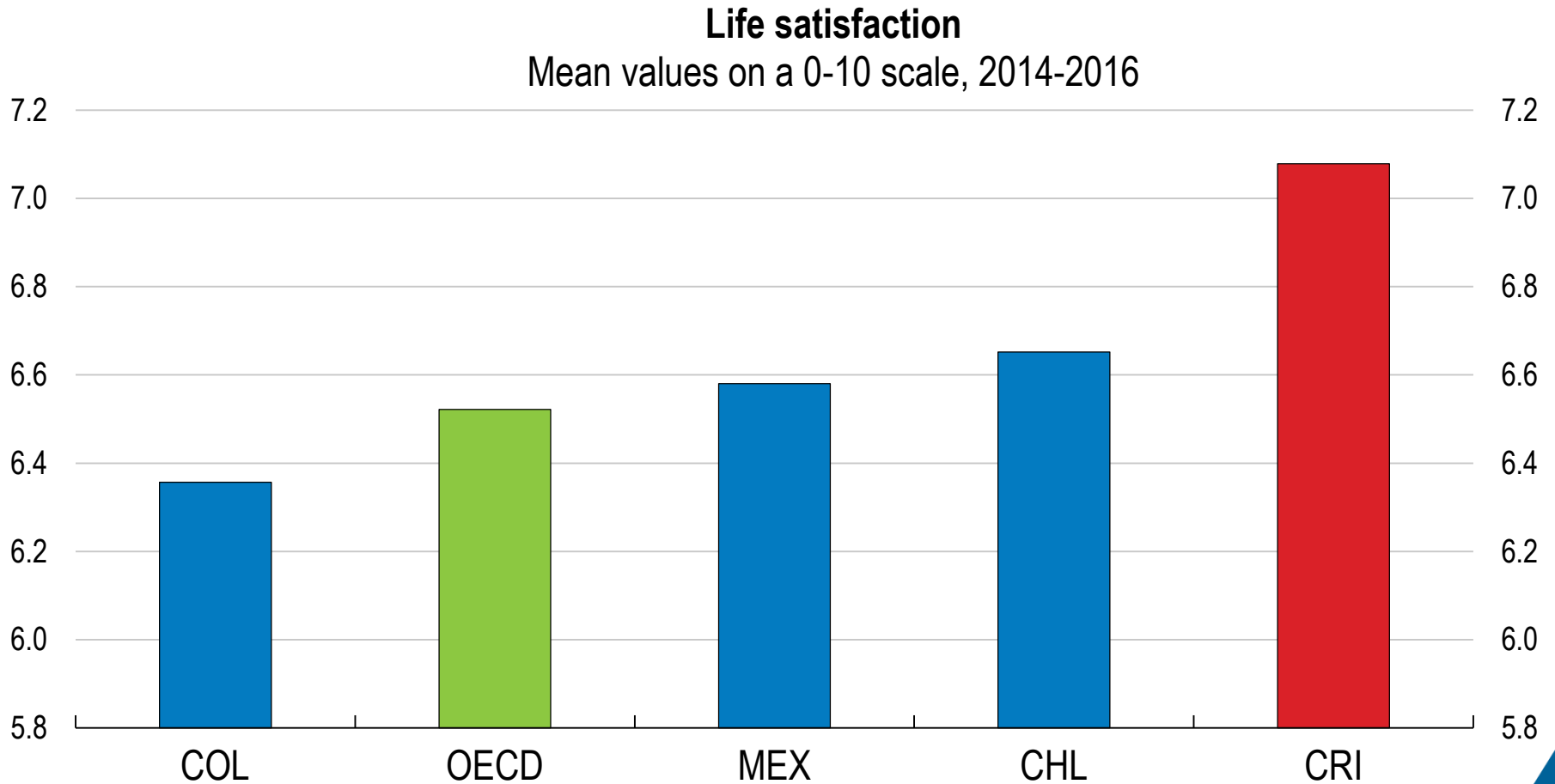


Note: LAC refers to Latin America and the Caribbean. Absolute poverty rate is based on an international poverty line of 2011 PPP \$1.90 a day.

Source: World Bank World Development Indicators.



Costa Rica's social achievements are impressive: Life Satisfaction

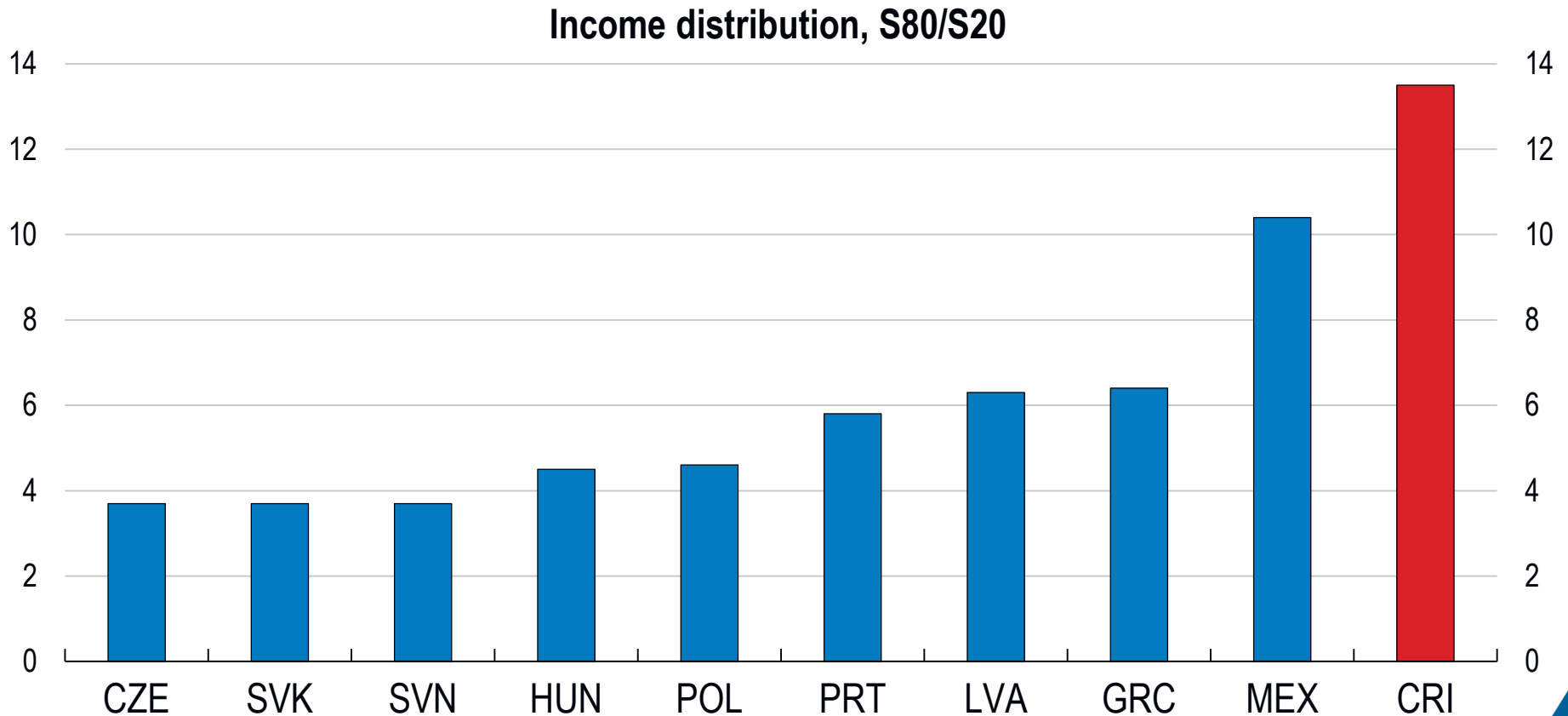


Note: The OECD average is population weighted and excludes Iceland and Luxembourg.

Source: OECD calculations based on Gallup World Poll, www.gallup.com/services/170945/world-poll.aspx.



However, inequality is high and has increased

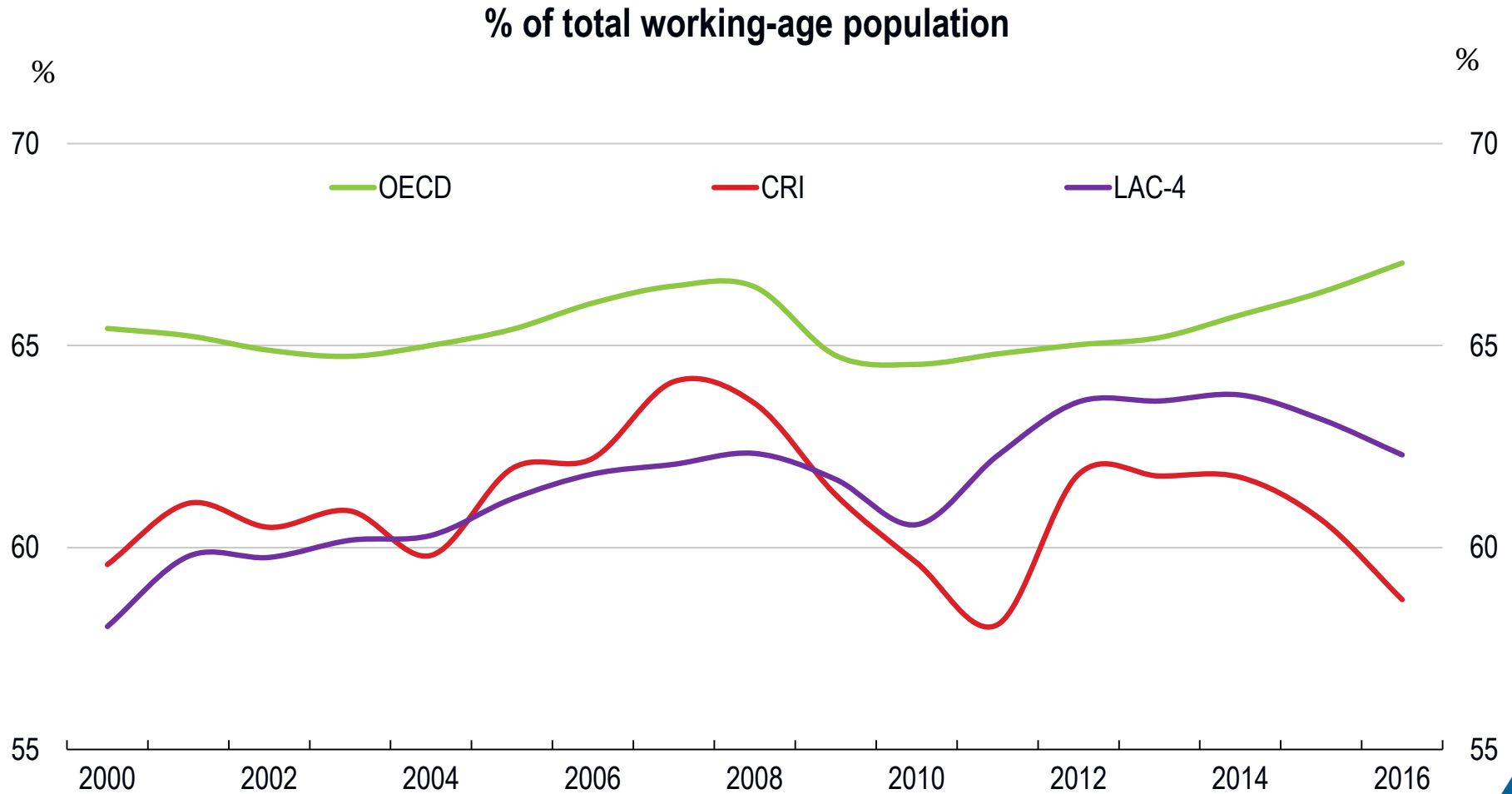


Note: The S80/S20 ratio represents the share of all income received by the top quintile divided by the share of the first. Data refer to 2015 except for Hungary (2014), Mexico (2014) and Costa Rica (2016).

Source: OECD Income Distribution Database.



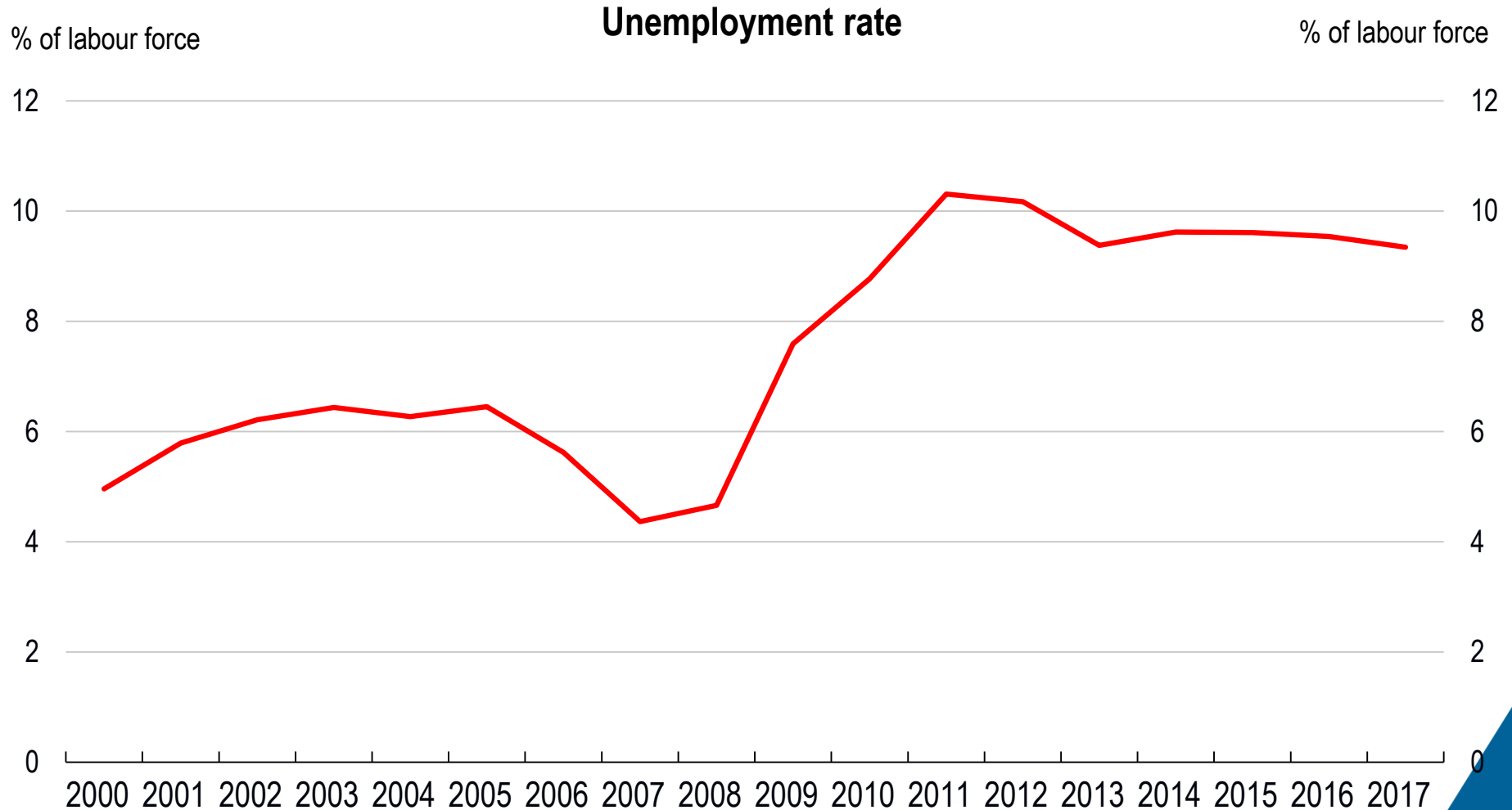
Employment rates are low



Note: LAC-4 refers to Brazil, Chile, Colombia and Mexico.
Source: OECD Labour Force Statistics database.



Unemployment remains high

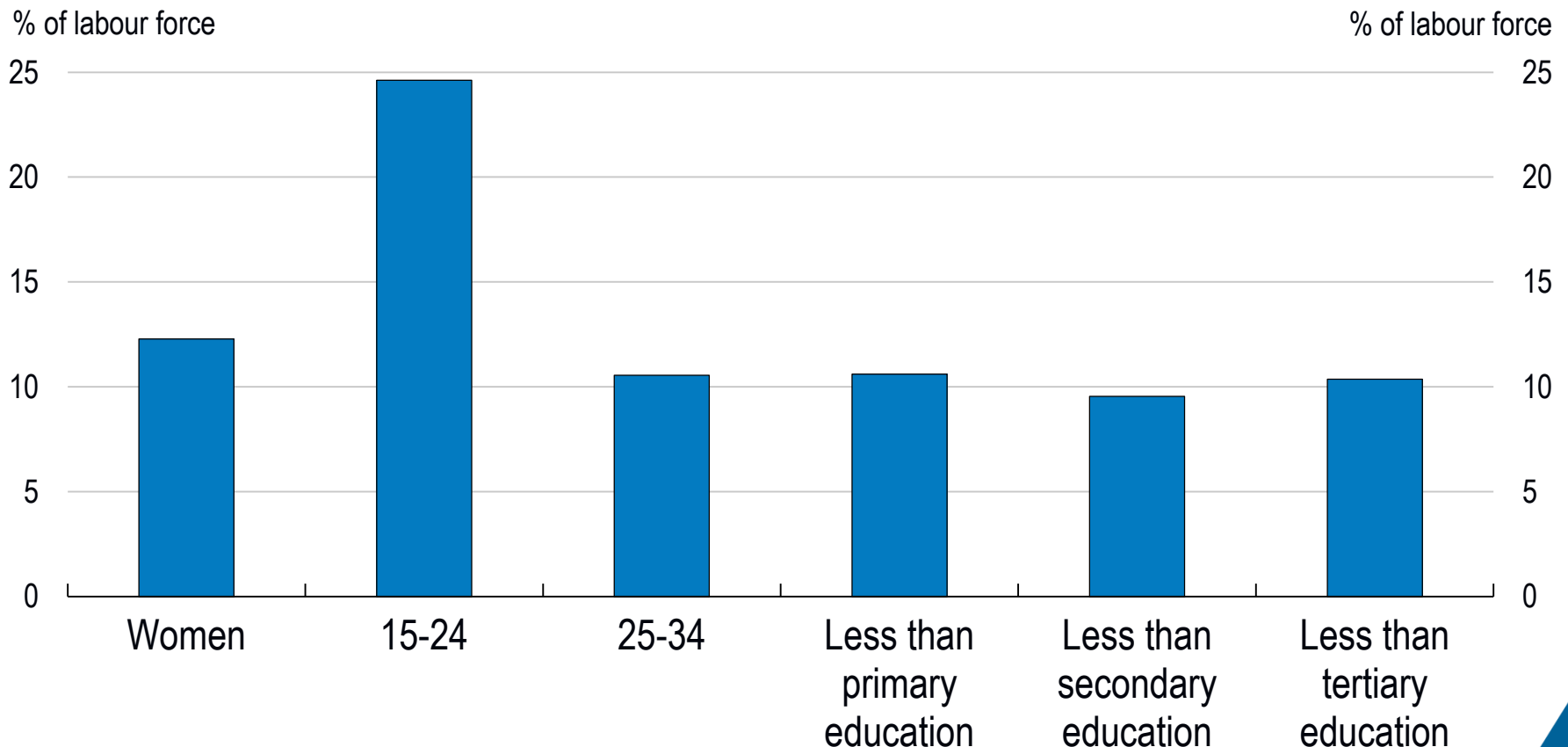


Source: OECD Labour Force Statistics database.



Unemployment affects primarily the young and low skilled

Unemployment by worker characteristics
(for groups with high unemployment rates), 2017

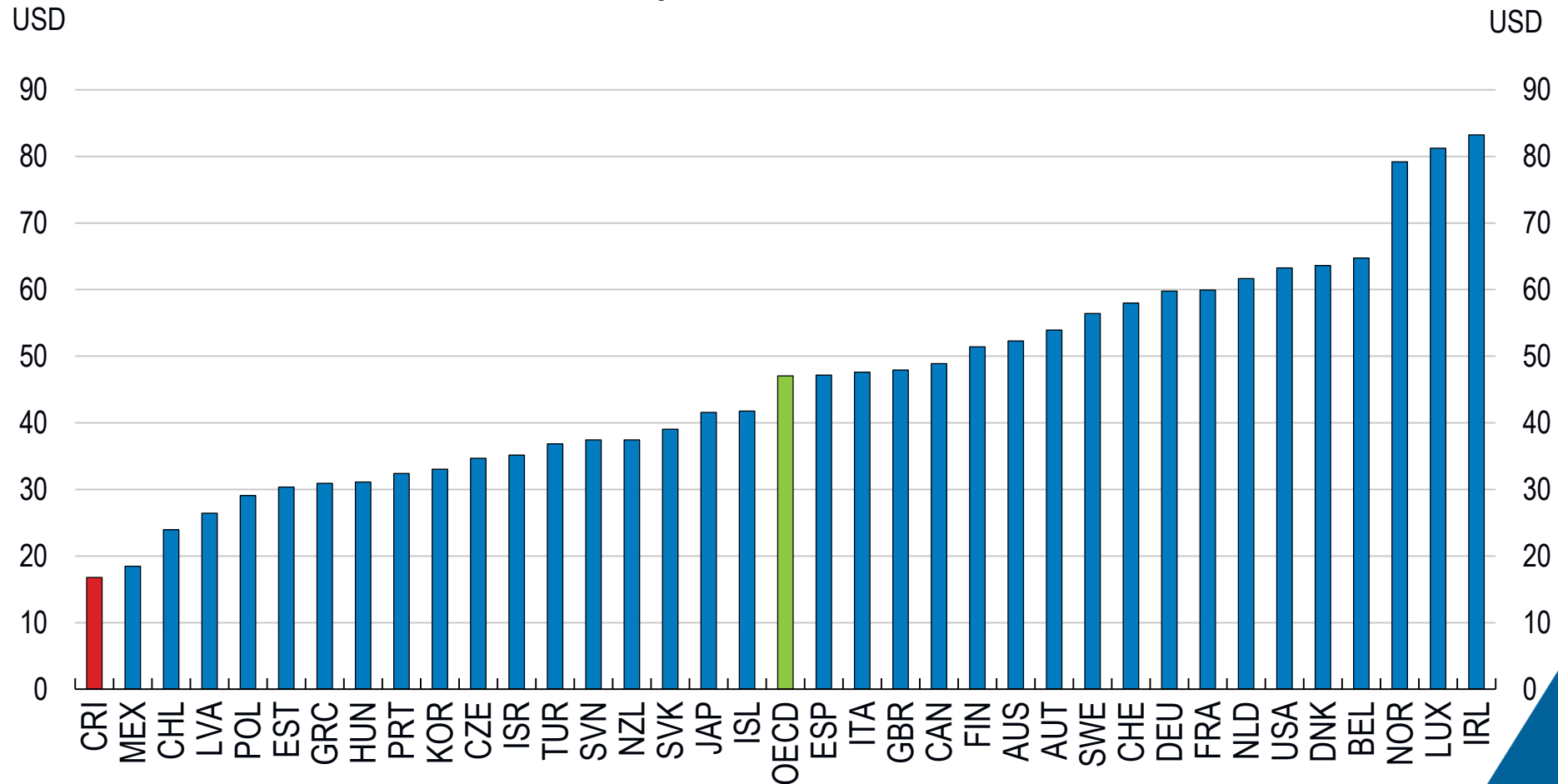


Source: INEC, Encuesta Continua de Empleo.



Labour productivity is low

GDP per hour worked, 2016

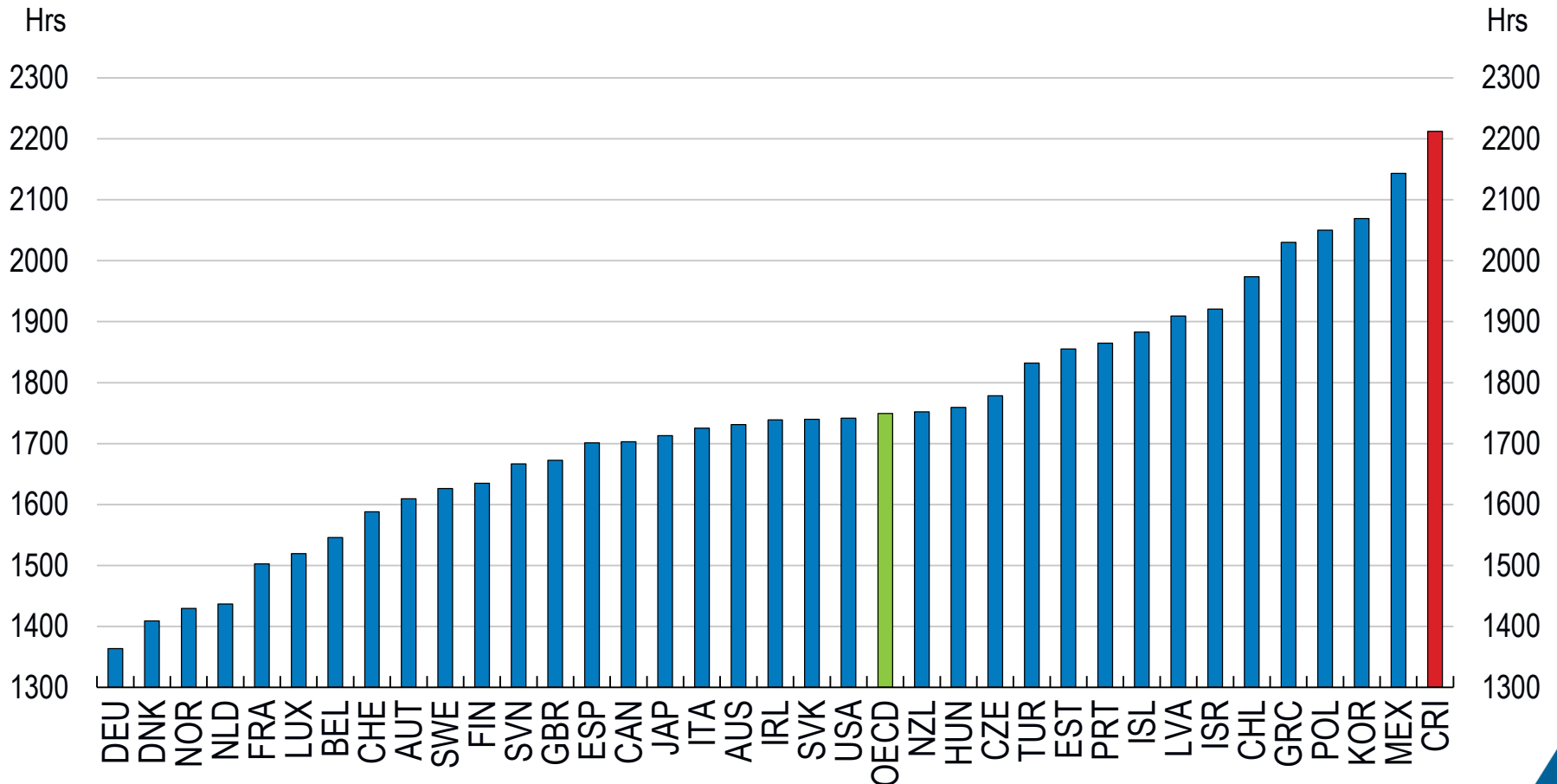


Source: OECD Productivity Database.



Labour utilisation is high due to long working hours

Hours worked per person employed, 2016



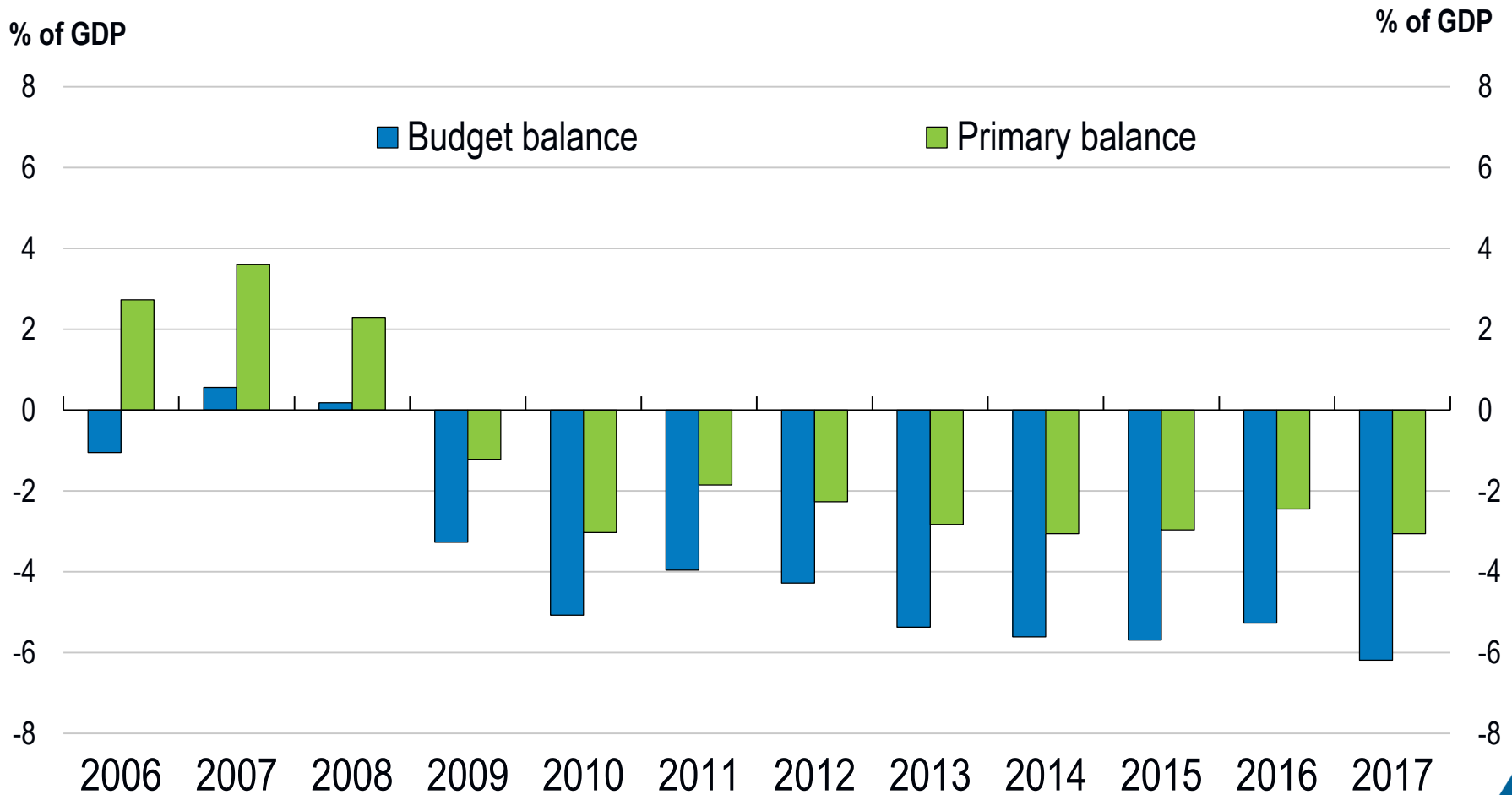
Source: OECD Productivity Database.



Achieving Fiscal Sustainability



Fiscal performance continues to deteriorate

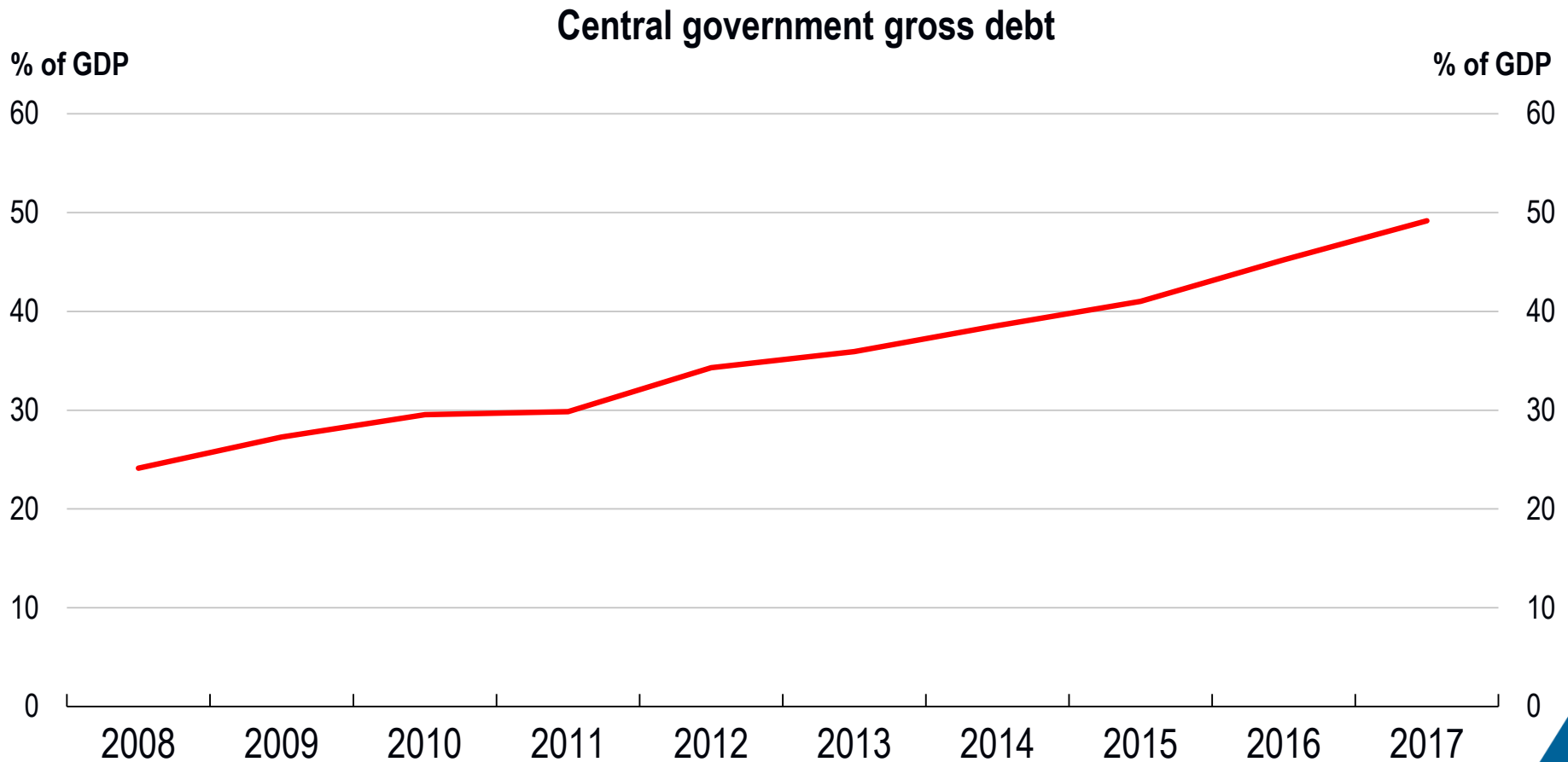


Note: Data refer to the central government only.

Source: Ministerio de Hacienda.



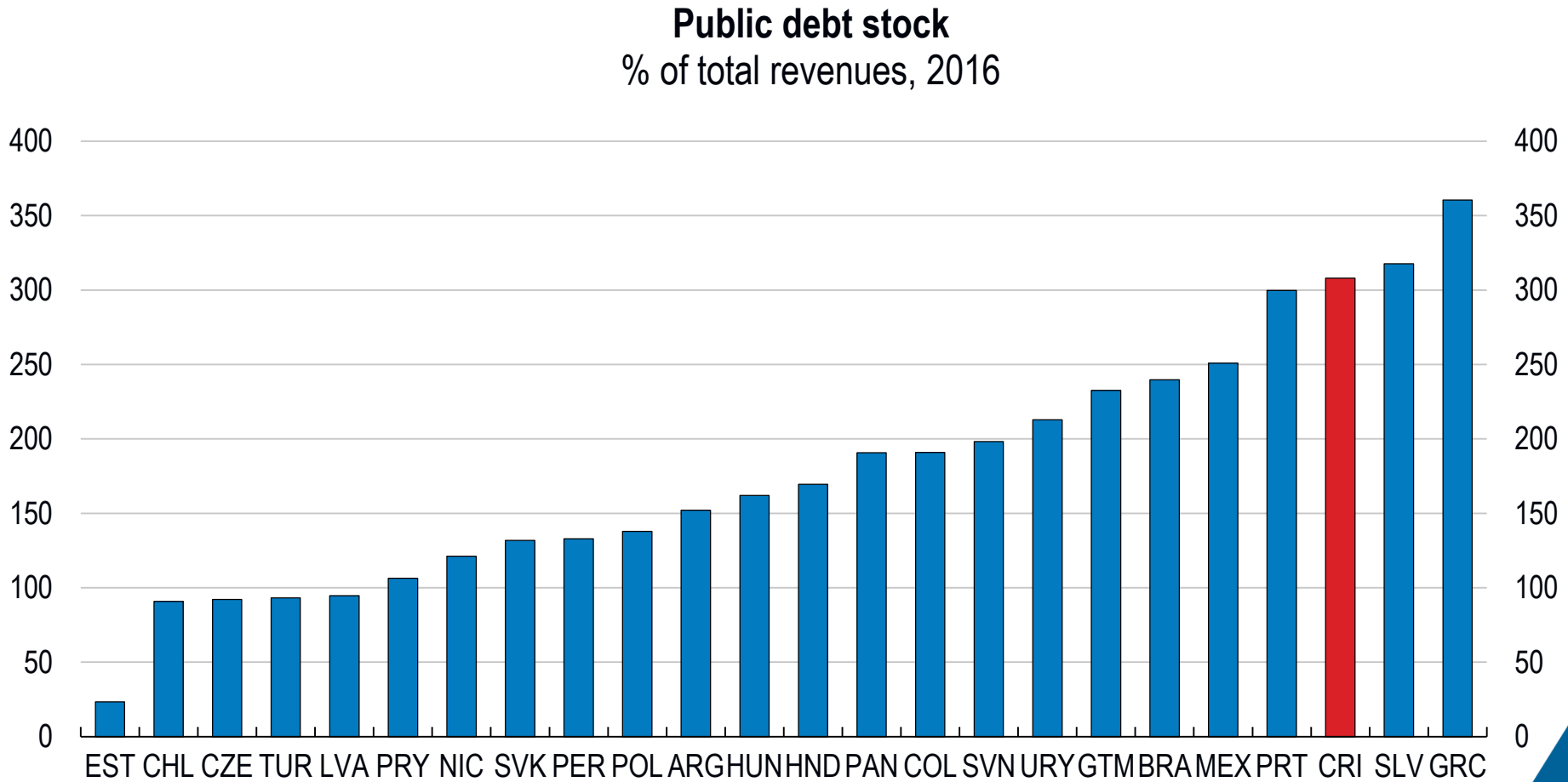
Public debt is growing rapidly



Source: Ministerio de Hacienda.



Public debt is high relative to tax revenues

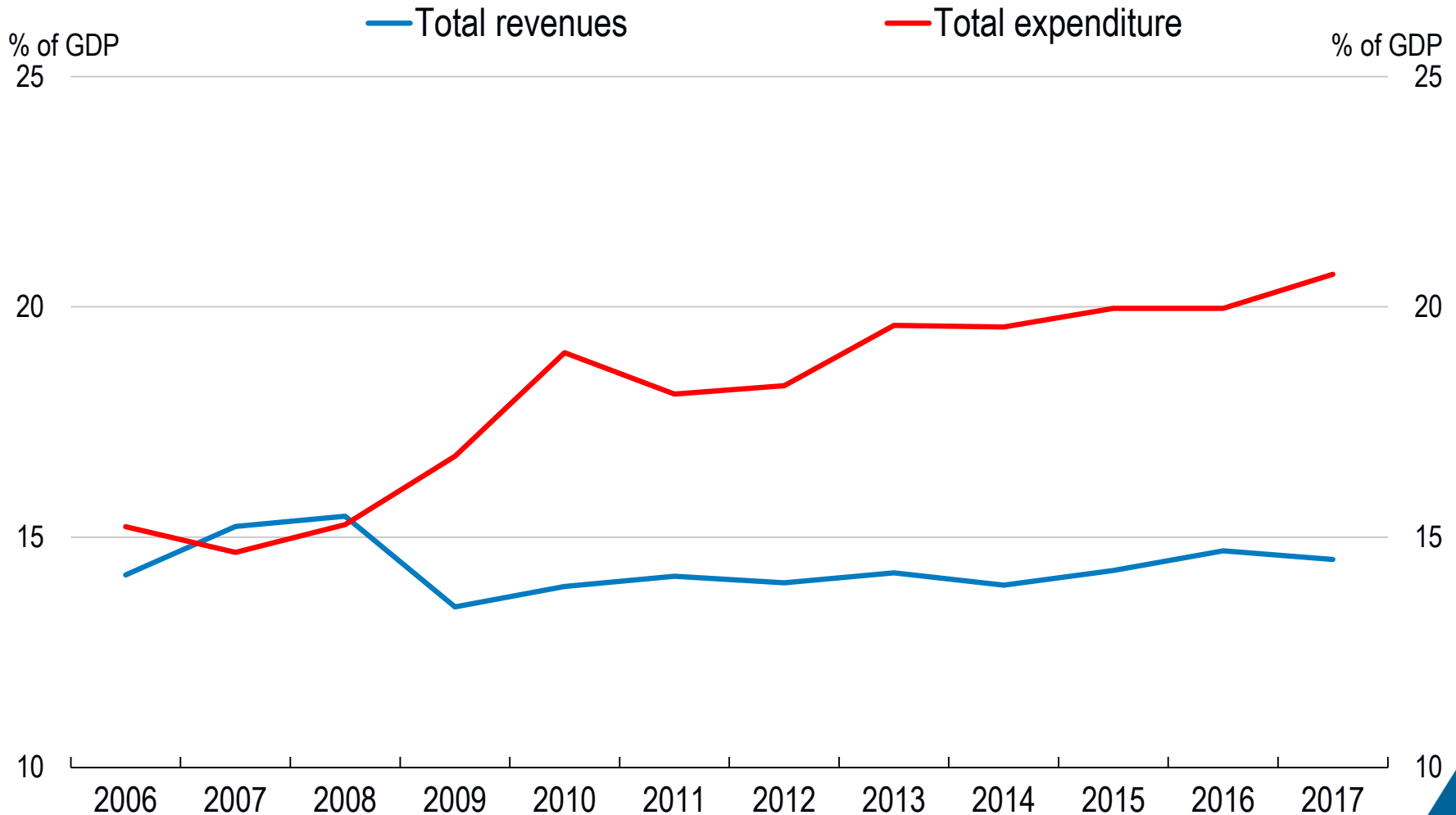


Note: Data refer to central government.

Source: IMF World Economic Outlook Database.



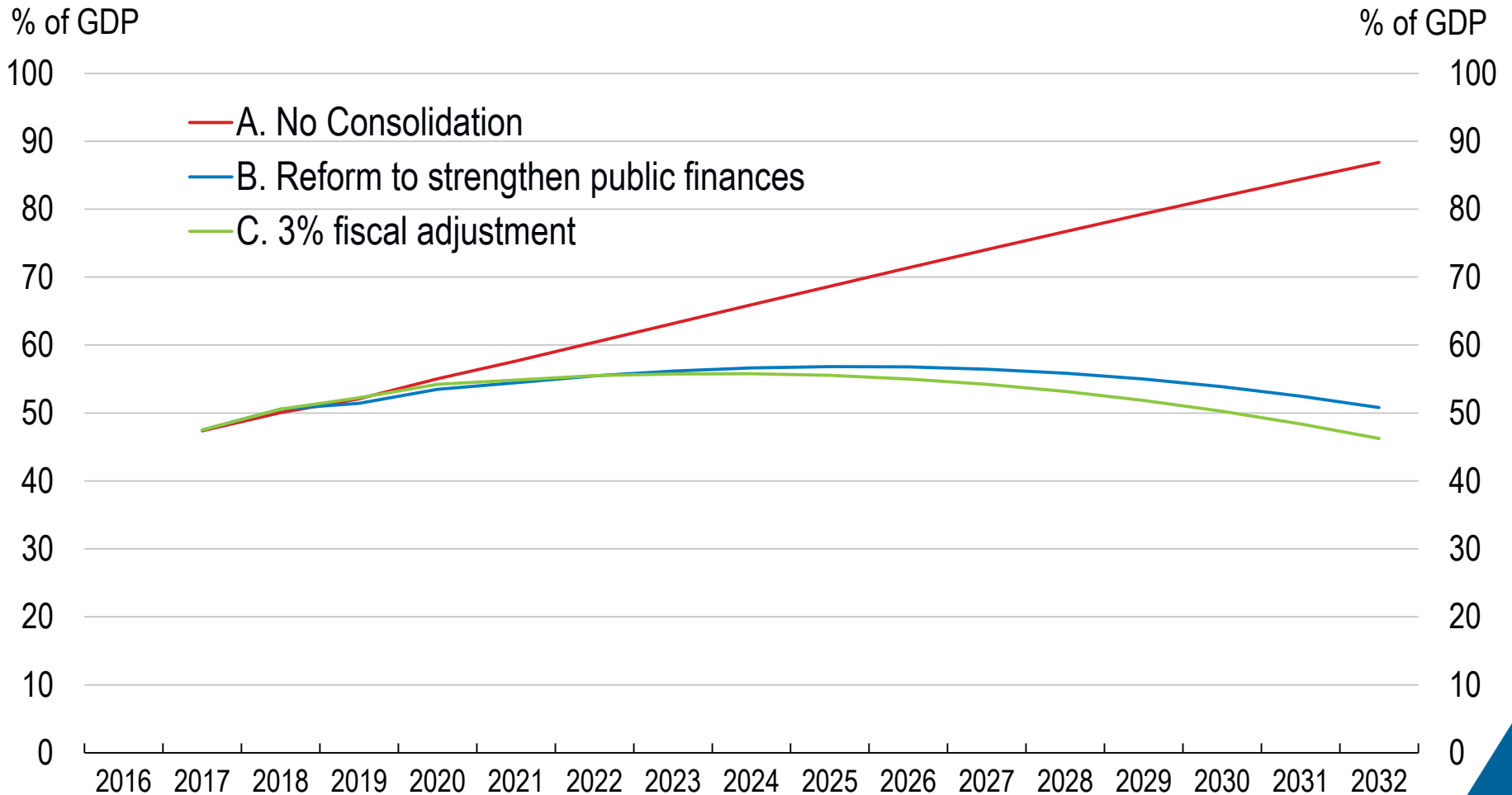
Spending keeps outpacing revenues



Source: Ministerio de Hacienda.



Debt will soar without urgent measures



Source: OECD calculations based on data from Ministerio de Hacienda.

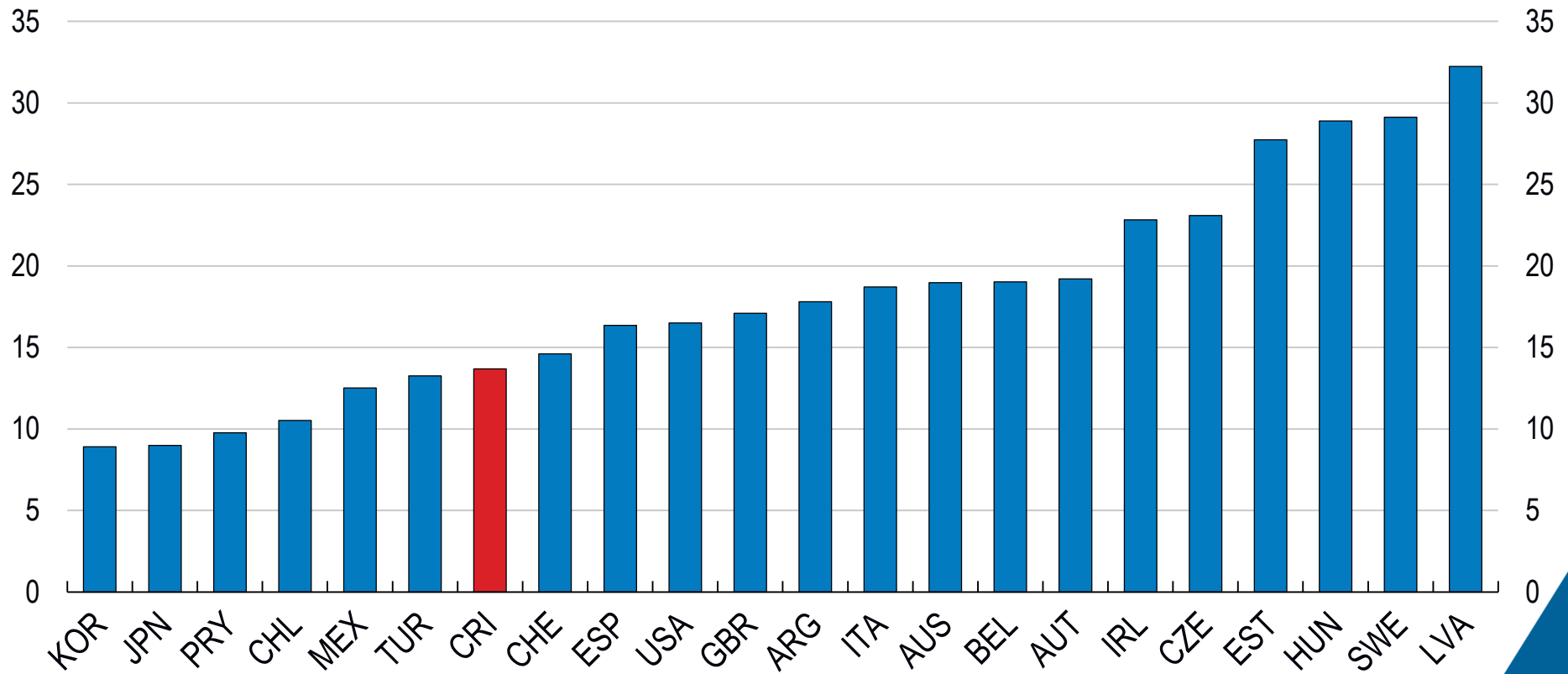


Public employment is low

Public employment
2016 or latest available year

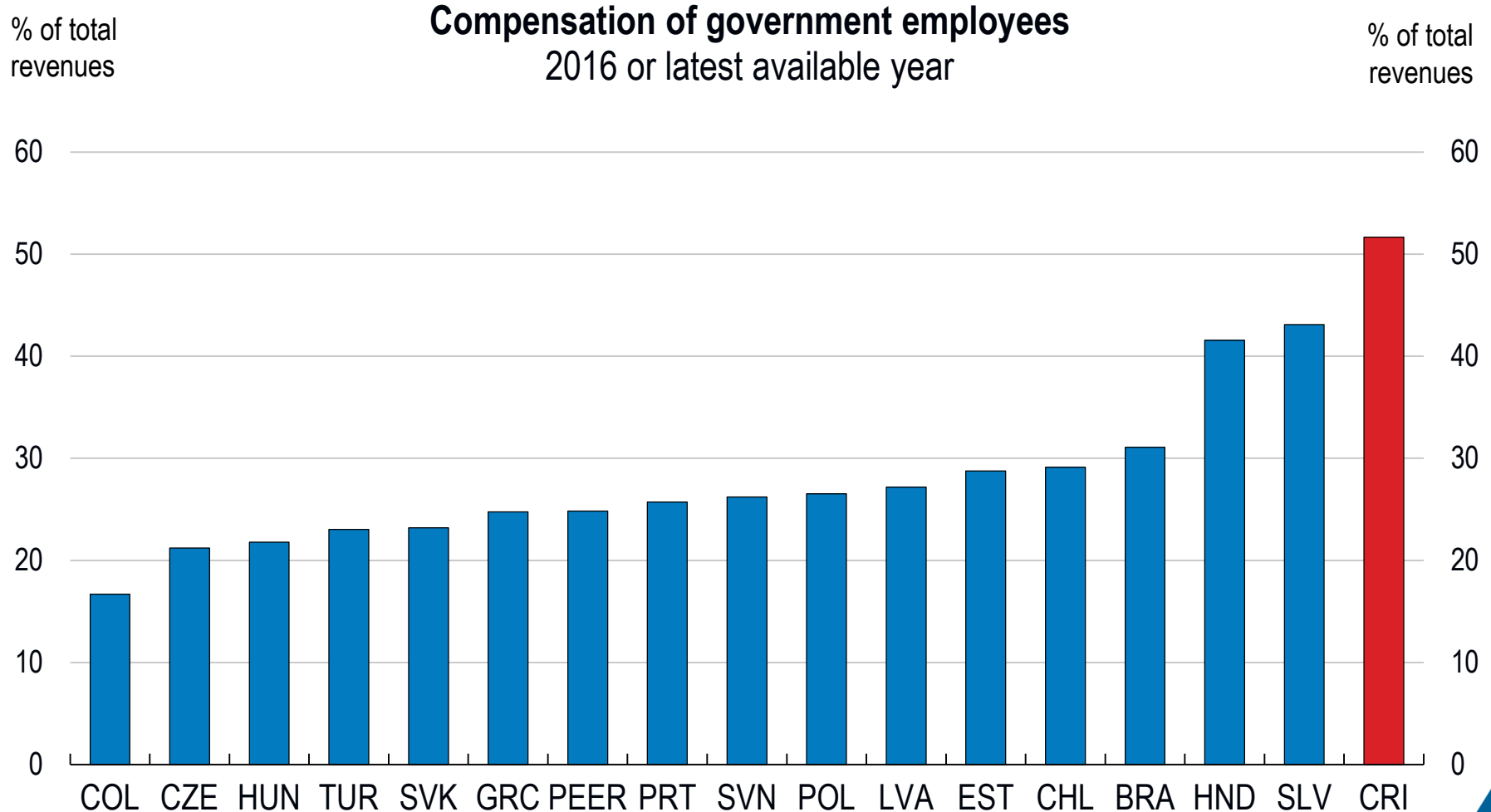
% of employment

% of employment



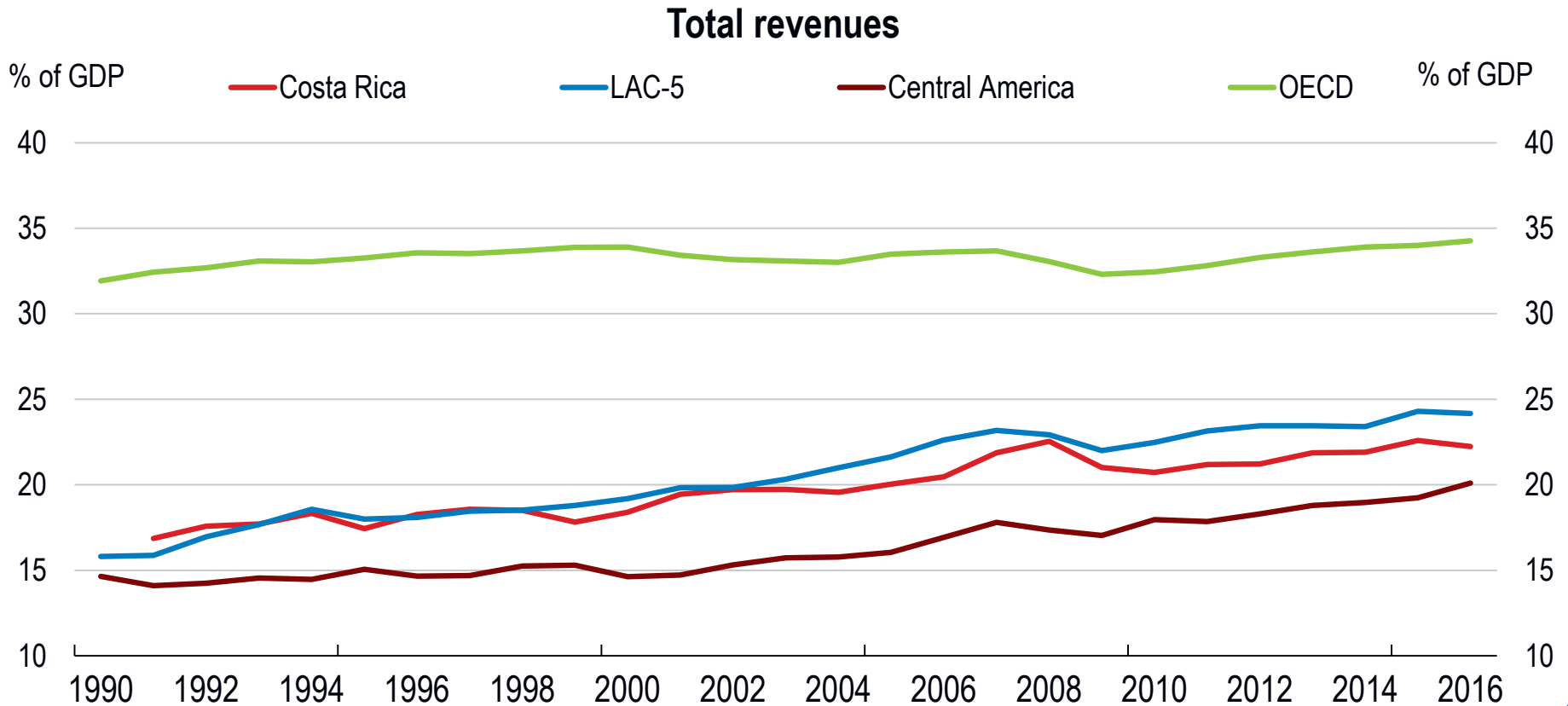


The public sector wage bill is high





Tax revenues can be further increased



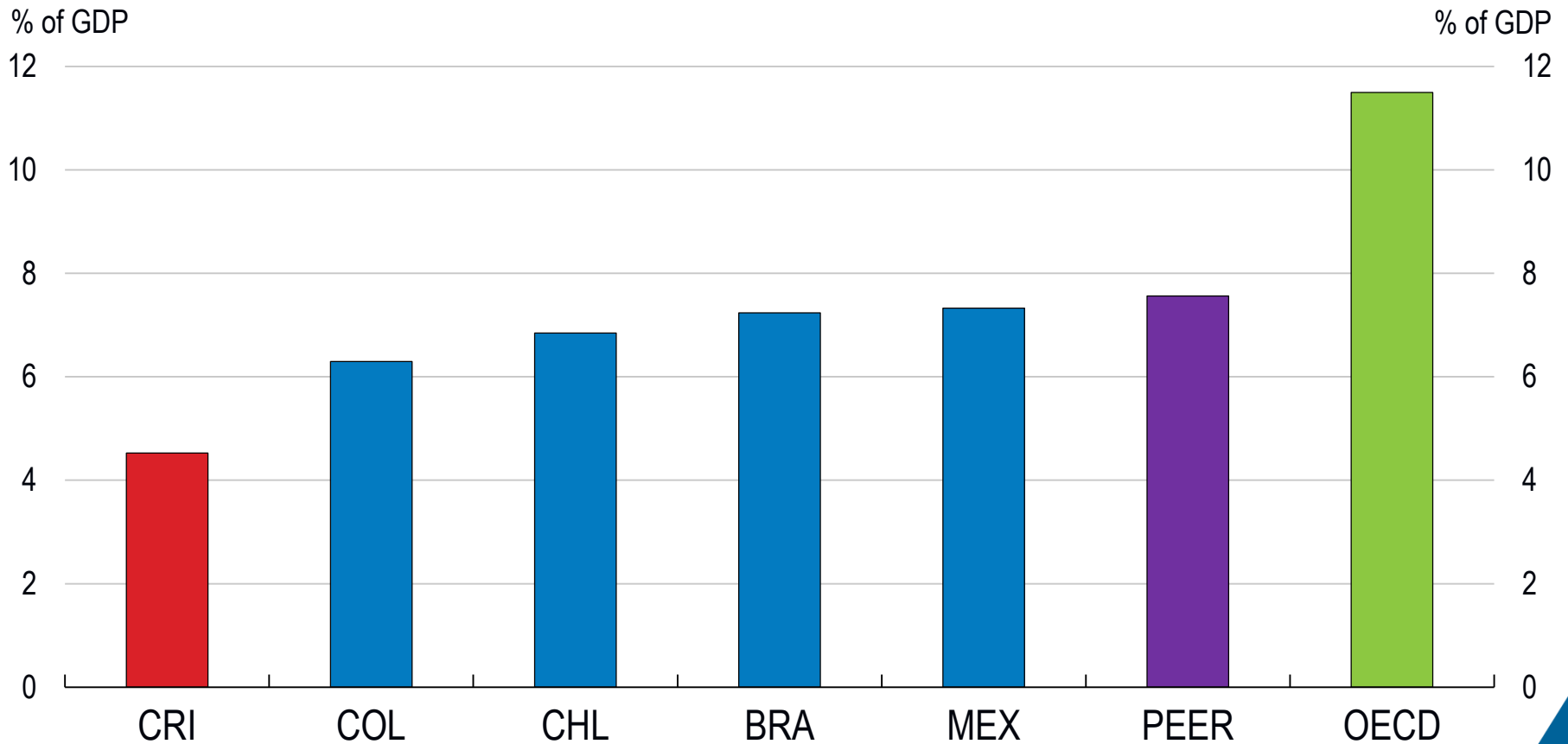
Note: LAC-5 is an unweighted average of: Argentina, Brazil, Chile, Colombia and Mexico. Central America is an unweighted average of Belize, Guatemala, Honduras, Nicaragua, Panama, El Salvador.

Source: OECD Revenue Statistics; OECD/IDB/CIAT Revenue Statistics in Latin America (2018).



Income and profit tax revenues are low

Income and profit taxes, 2016



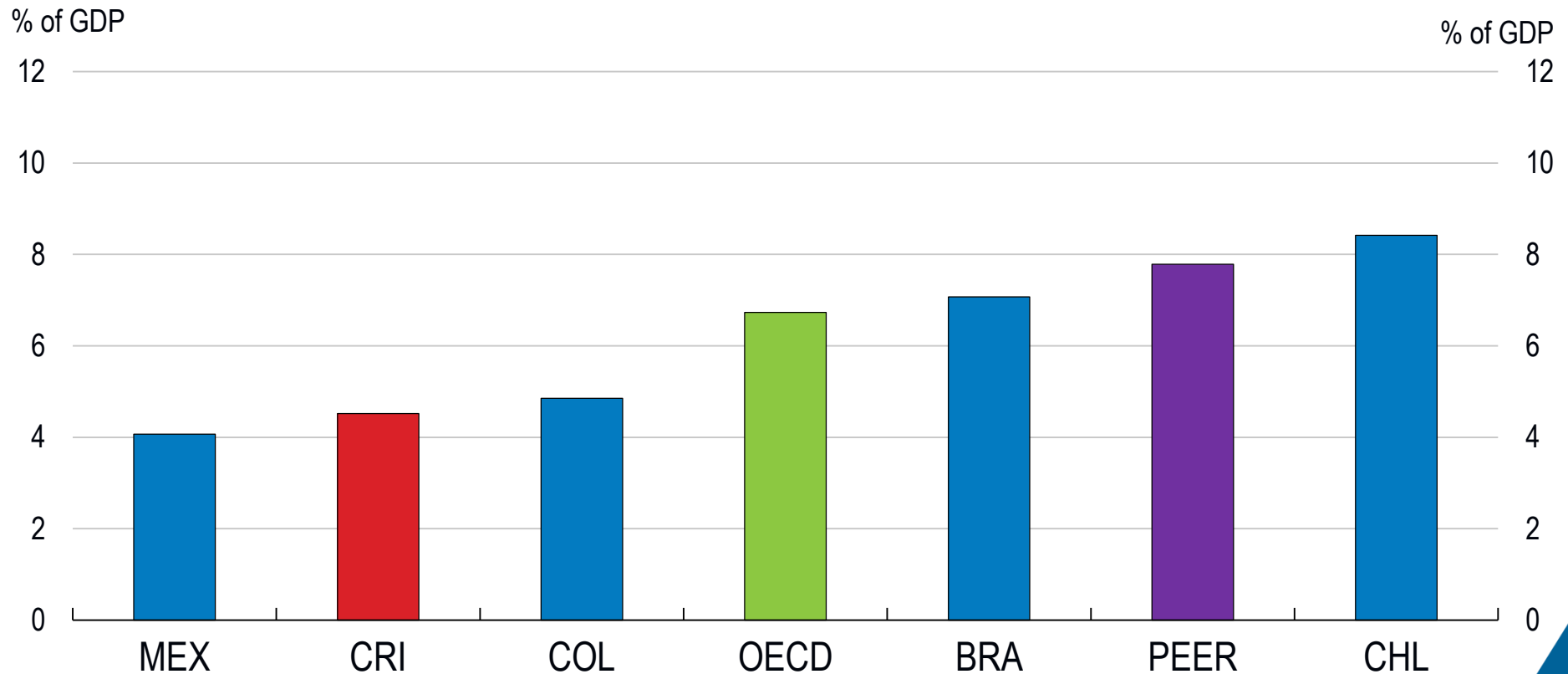
Note: PEER is an unweighted average of the 10 non-Latin American OECD countries with the lowest GDP per capita and available information. OECD is an unweighted average of 2015 data.

Source: OECD Revenue Statistics; OECD/IDB/CIAT Revenue Statistics in Latin America (2018).



VAT tax collection is low

Value added taxes, 2016



Note: PEER is an unweighted average of the 10 non-Latin American OECD countries with the lowest GDP per capita and available information. OECD is an unweighted average of 2015 data.

Source: OECD Revenue Statistics; OECD/IDB/CIAT Revenue Statistics in Latin America (2018).



Recommendations to restore fiscal sustainability

- Implement immediate measures to reduce the budget deficit by 3 percentage points of GDP during 2018-20 to stabilise the debt-to-GDP ratio, through a comprehensive package of measures to:
 - raise revenue,
 - curb spending,
 - strengthen the fiscal rule.
- Reduce budget rigidities stemming from legally mandated spending and earmarking of government revenues.
- In the medium term take actions to reduce the debt-to-GDP ratio to prudent levels while building fiscal space to address contingencies.
- Streamline public sector employment to better control payroll costs.
- Assess contingent liabilities.
- Create a fiscal council and introduce a multi-year expenditure framework.
- Modernise debt management by reducing the number of benchmark securities and improving communication with markets.

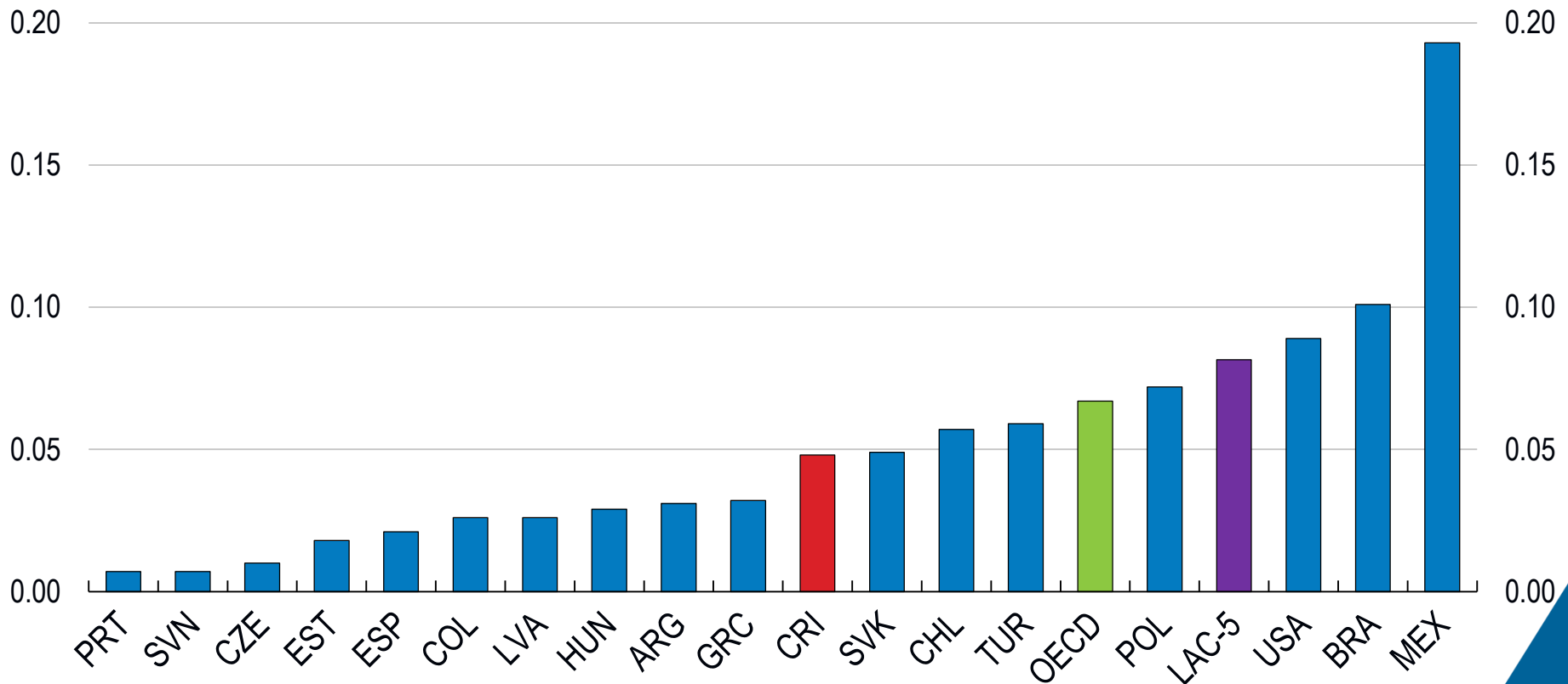


Fostering competition



FDI restrictions are relatively low overall

FDI Regulatory Restrictiveness Index, 2016
(0-1 from open to closed)



Note: LAC-5 is a simple average of Argentina, Brazil, Colombia, Chile and Mexico.

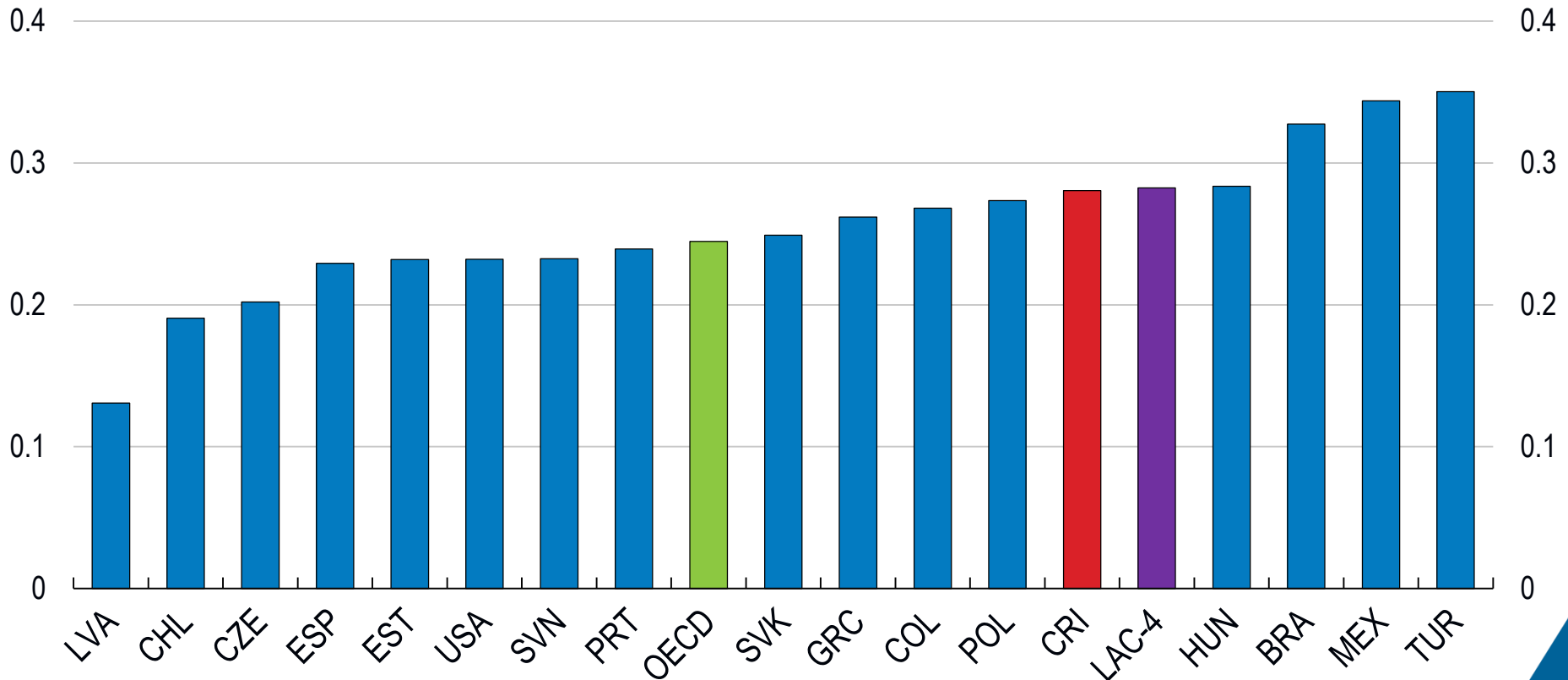
Source: OECD FDI Restrictiveness Index.



Services trade restrictions are high

A. Overall STRI 2017

Scale 0-1 from least to most restrictive

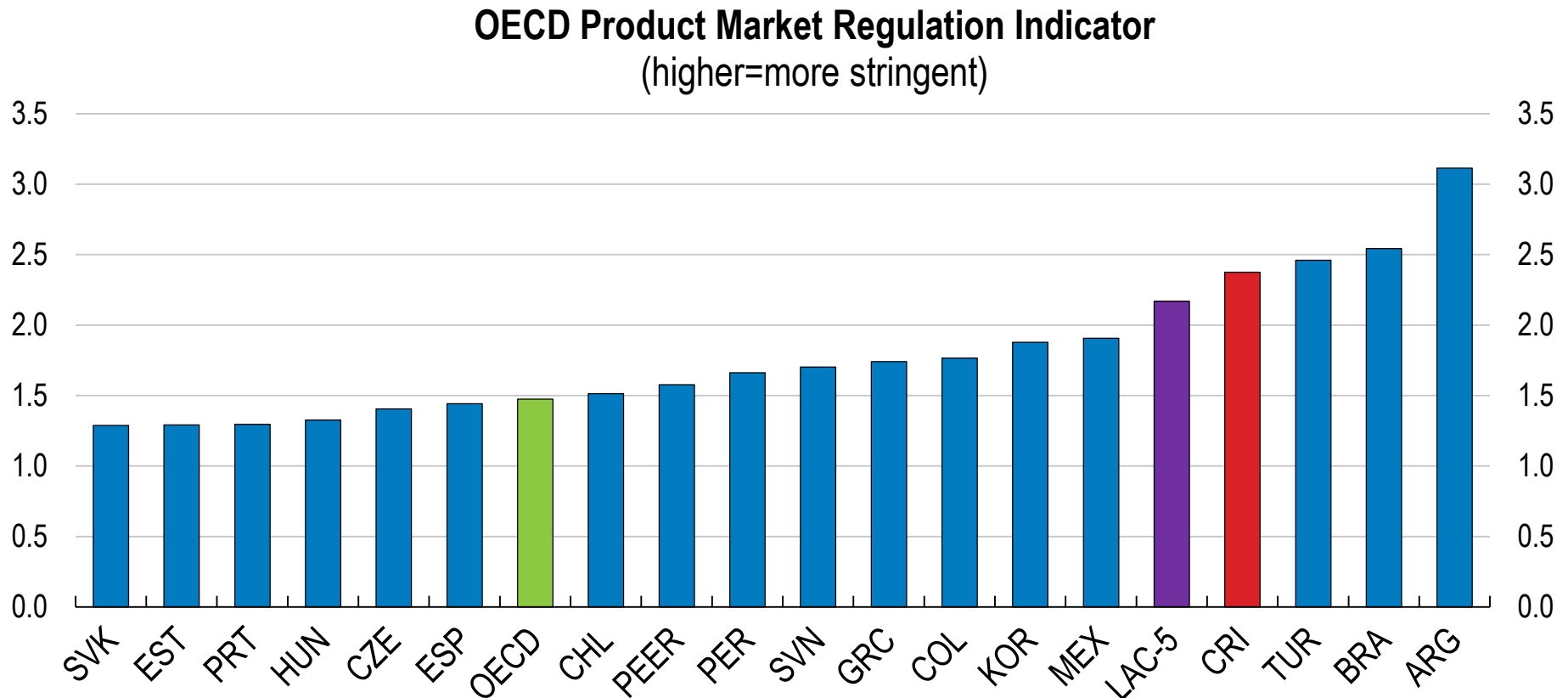


Note: LAC-4 refers to a simple average of Brazil, Chile, Colombia and Mexico.

Source: OECD Services Trade Restrictiveness Index (STRI).



Regulations are stringent

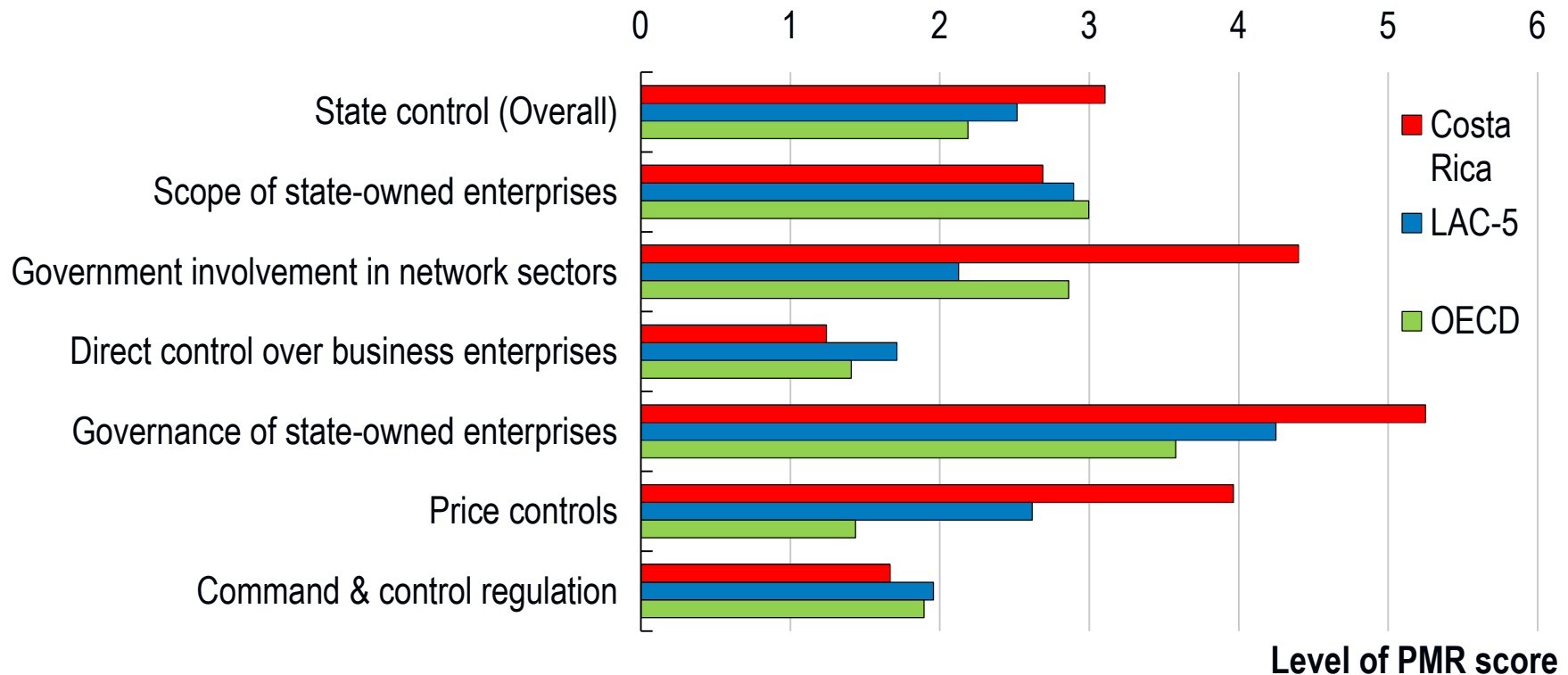


Note: LAC-5 is a simple average of Argentina, Brazil, Chile, Colombia and Mexico. PEER is a simple average of the 10 OECD lowest GDP per capital countries excluding Latin American countries.

Source: OECD-WBG Product Market Regulation database for all LAC countries except Brazil, Chile and Mexico; OECD Product Market Regulation database.



State controls restrict competition

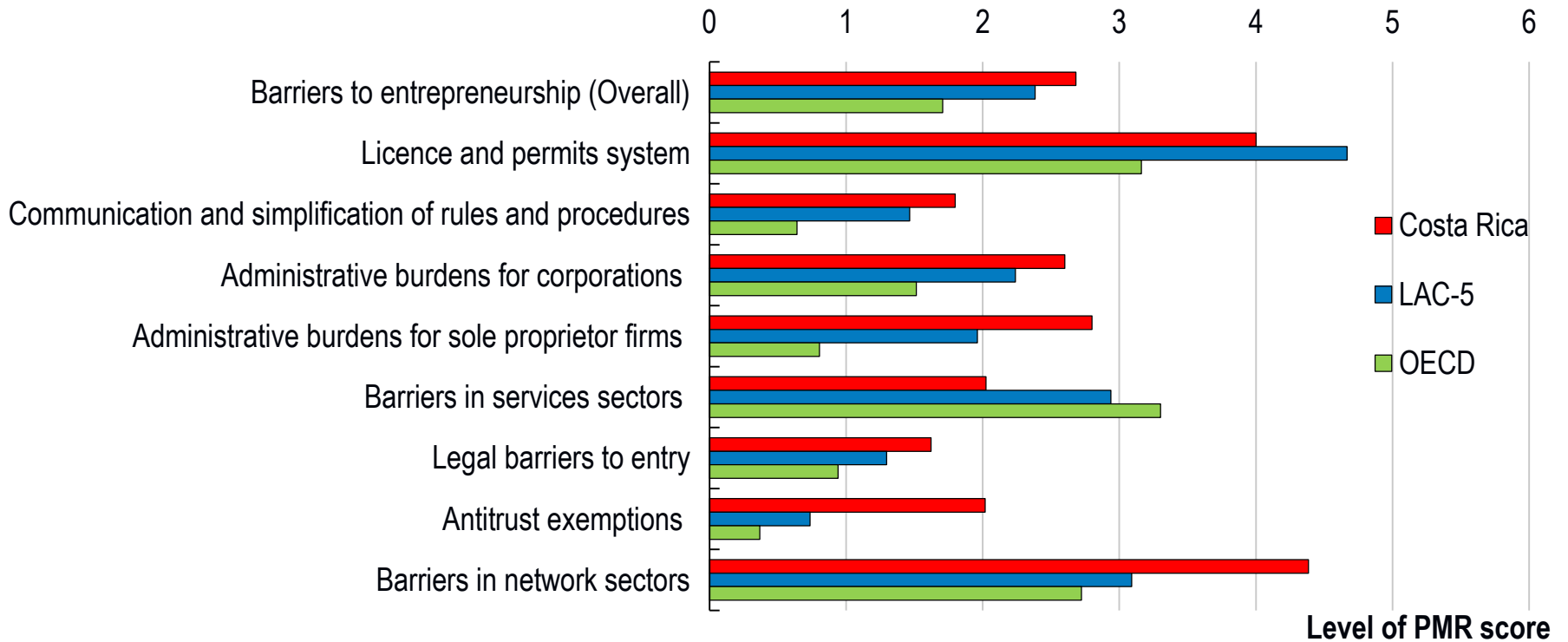


Note: LAC-5 is a simple average of Argentina, Brazil, Chile, Colombia and Mexico.

Source: OECD-WBG Product Market Regulation database for all LAC countries except Brazil, Chile and Mexico; OECD Product Market Regulation database.



Barriers to entrepreneurship are high



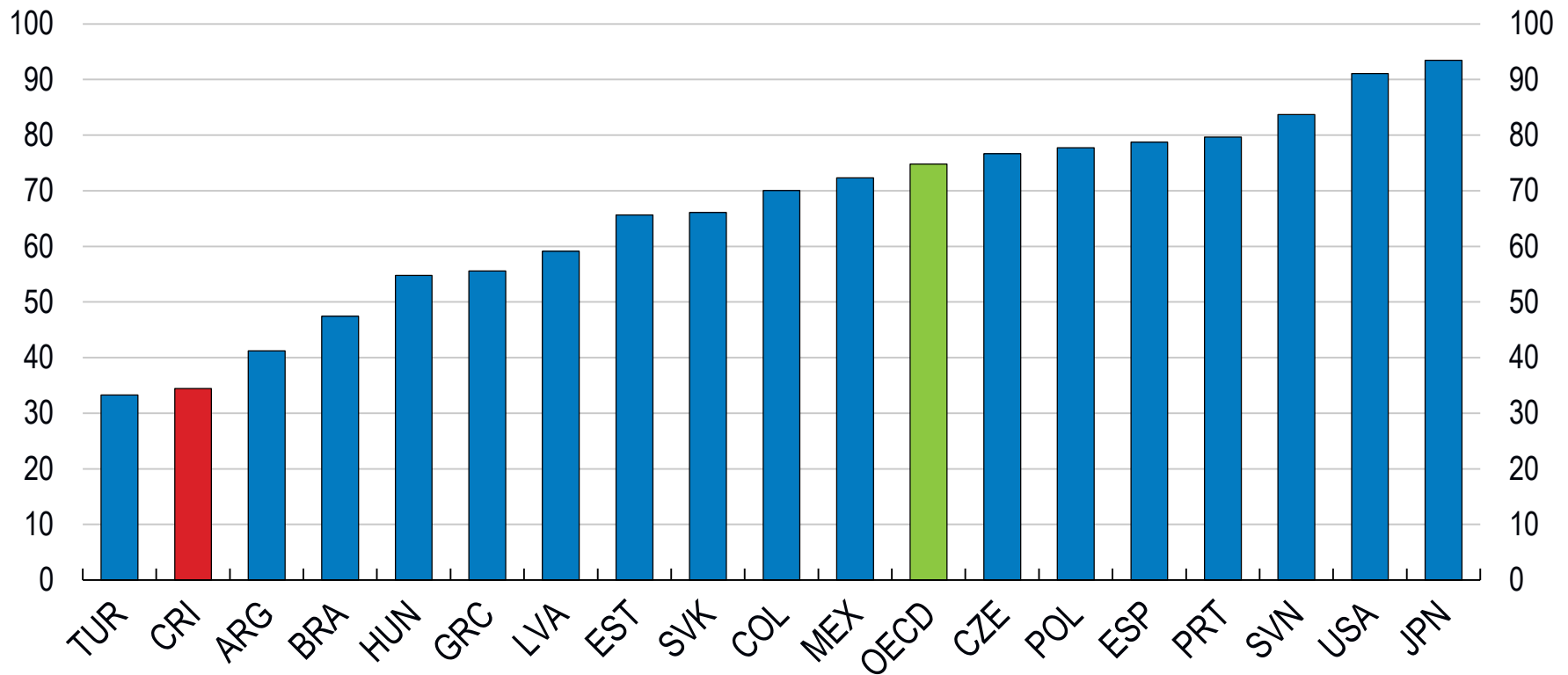
Note: LAC-5 is a simple average of Argentina, Brazil, Chile, Colombia and Mexico.

Source: OECD-WBG Product Market Regulation database for all LAC countries except Brazil, Chile and Mexico; OECD Product Market Regulation database.



The insolvency process is lengthy and the debt recovery rate is low

World Bank Doing Business: Resolving insolvency, 2017
Distance to the frontier (100=best practice)



Source: : World Bank Doing Business 2018 database.



Recommendations to foster competition

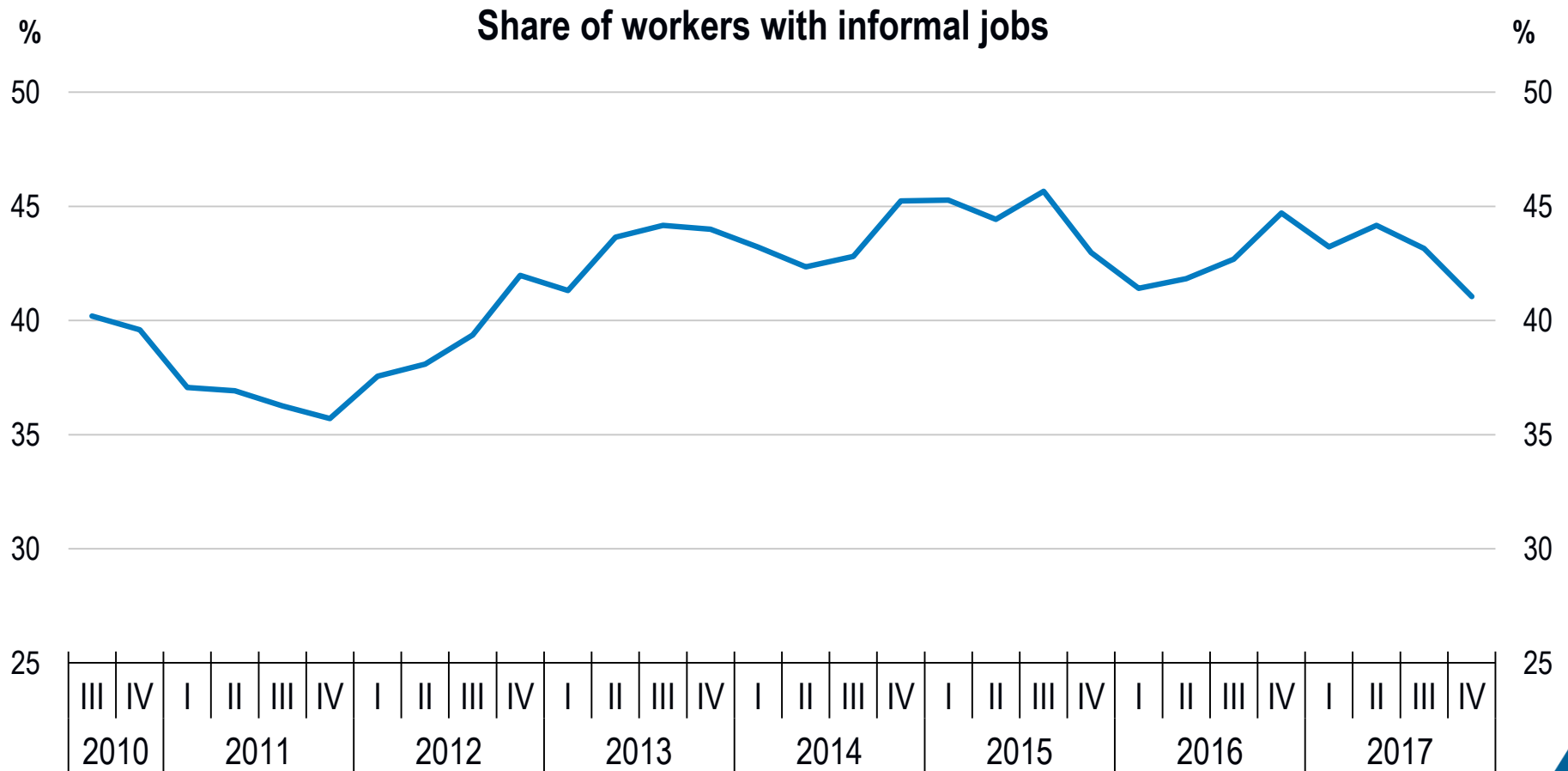
- Adopt and implement the bill reinforcing the powers, independence and funding of the competition commission.
- Continue implementation of the action plan to increase consistency with the OECD Guidelines on Corporate Governance of State-Owned Enterprises.
- Continue with the planned 25 sector studies evaluating the exemption from competition and eliminate unjustified exemptions.
- Establish a one-stop-shop for business registration and licensing. Introduce performance targets. Continue to improve the insolvency regime and trade facilitation.



Making labour markets more inclusive



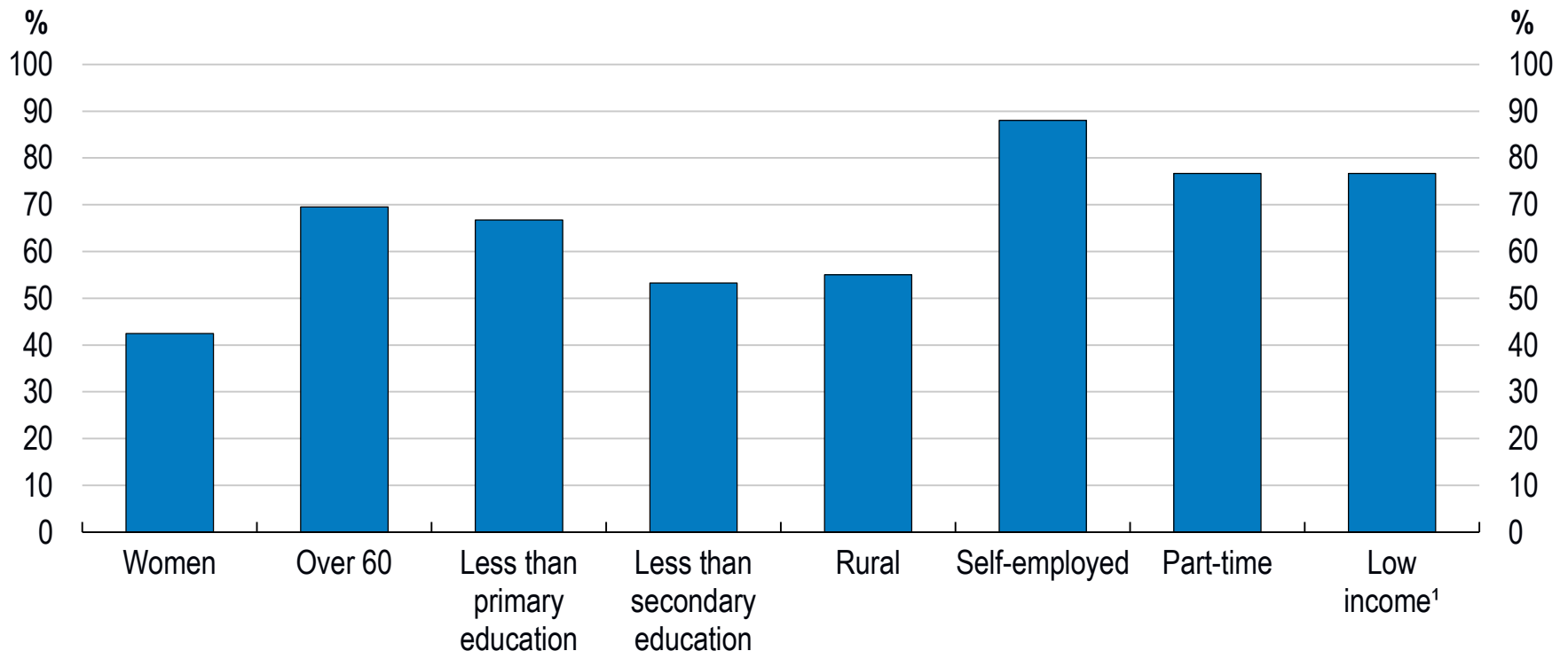
Informality remains stubbornly high





Informality is widespread

Informality by worker characteristics
(for groups with high informality rates), 2017

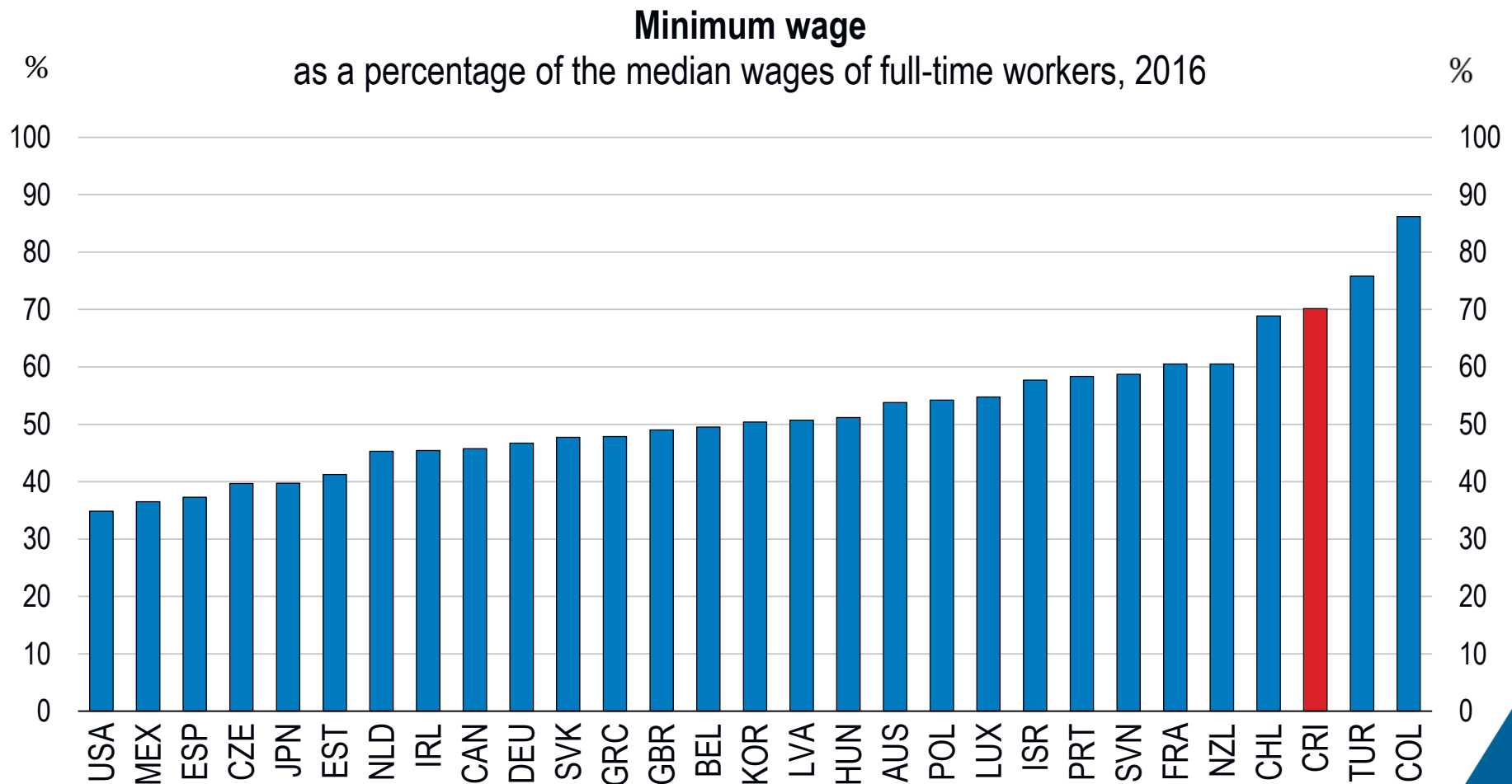


1. Low income refers to hourly earnings of less than the lowest minimum wage.

Source: INEC Encuesta Continua de Empleo.



The minimum wage is high and complex and discourages formalisation



Note: For Costa Rica, the calculations use the minimum wage of unskilled workers.

Source: OECD Labour Force Statistics Database.



Recommendations to reduce high informality

- Implement a comprehensive plan to reduce informality, including greater enforcement of obligations to pay contributions.
- Continue moving to a smaller number of minimum wages.

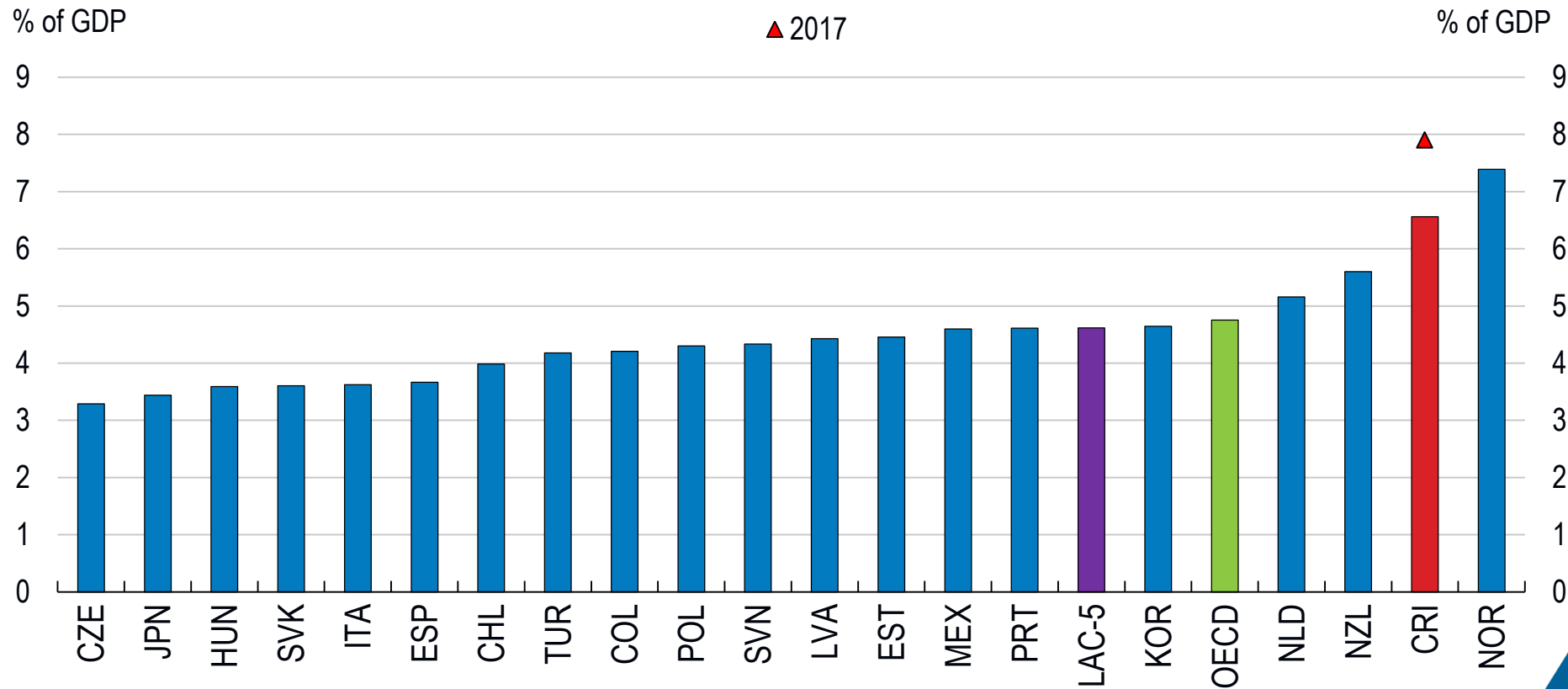


Enhancing education outcomes



Education spending is high

Public expenditure on education, 2015

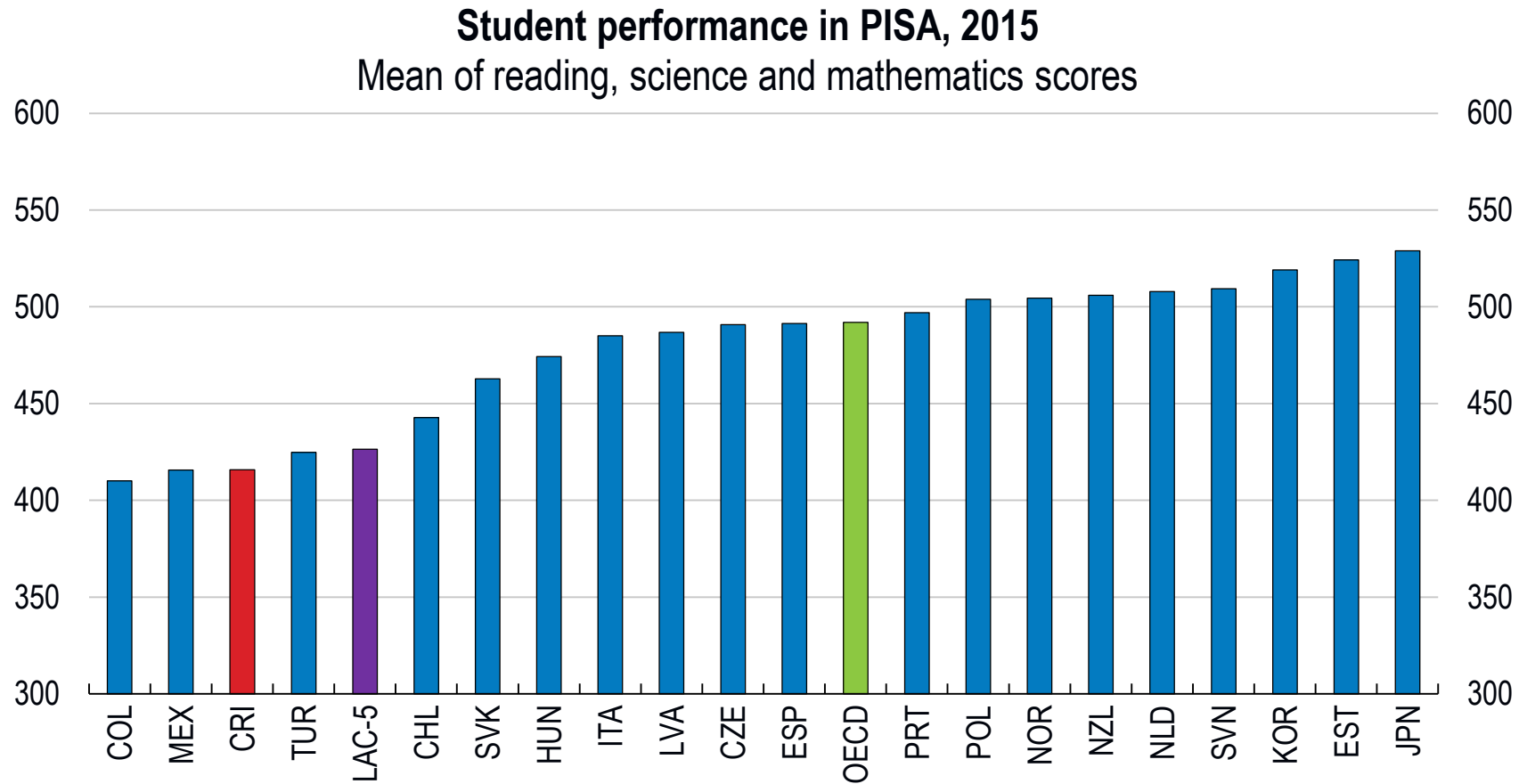


Note: Expenditure on primary, secondary, post-secondary and tertiary education. LAC-5 is a simple average of Argentina, Brazil, Colombia, Chile and Mexico.

Source: OECD Educational Finance Indicators; Ministerio de Hacienda.



Education outcomes are low

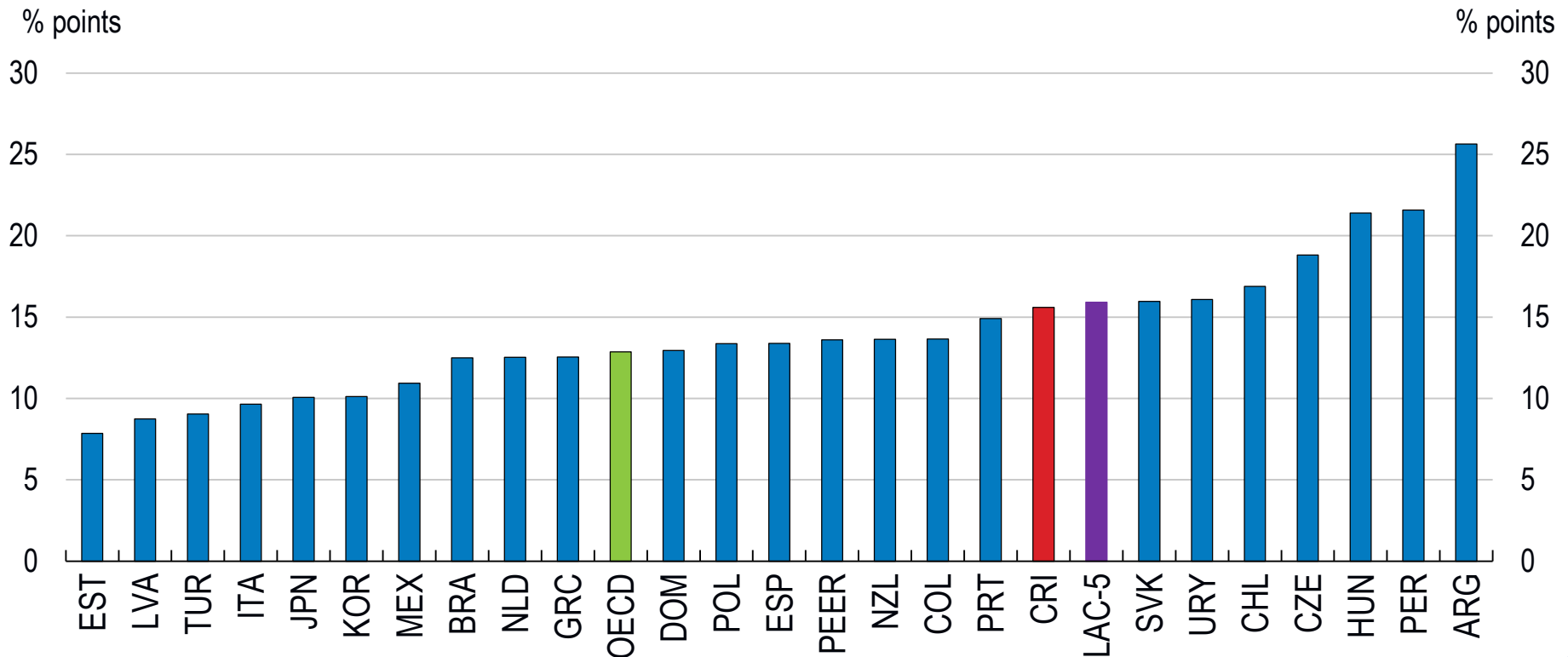


Note: LAC-5 is a simple average of Argentina, Brazil, Colombia, Chile and Mexico.
Source: OECD Programme for International Student Assessment (PISA).



Educational inequalities are high

Relationship between student performance and socio-economic status
Variation in PISA scores explained by socio-economic status, 2015



Note: LAC-5 is a simple average of Argentina, Brazil, Colombia, Chile and Mexico.

Source: OECD (2016): PISA 2015 Results.



Recommendations to improve education outcomes

- Increase the supply of publicly-funded childcare services. Classify all spending on early-childhood education and care under the constitutionally-mandated spending on education.
- Rebalance education spending towards early childhood and secondary education. Strengthen targeted support for at-risk students, and teachers' training.
- Establish better educational outcomes as the main policy target, instead of a focus on spending, and develop performance indicators.